Campbell's

A LEVERAGE BUYOUT ASSESSMENT

Copenhagen Business School

Authors: Simen Thorsheim
& Adam Sagedahl
Supervisor: Jens Marcus-Møller
Date of Submission: 31st of May 2016
Number of Pages: 110
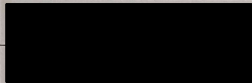**Number of Characters:** 272.614 (incl. spaces)

SOUP

CBS | COPENHAGEN BUSINESS SCHOOL
HANDELSHØJSKOLEN

Declaration of Authorship

(To be placed at page 2 in the assignment])

Identification	
Title of assignment:	Campbell: A Leverage Buyout Assessment
Study programme:	MS.c Applied Economics & Finance and MS.c International Business
Course:	Master thesis
Type of Exam (e.g. Home assignment or Bachelor Project):	
Master thesis	

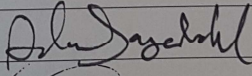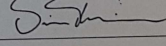| Social Security No. or Student ID:	Name of author(s):	Group no. (if relevant)
███████████	Adam Asmussen Monjau Sagedahl	
	Simen Thorsheim	

Number of pages:

According to the exam regulations for this particular exam, the assignment must be of a maximum of **120** pages [Insert max. number of pages] exclusive front page, bibliography and appendices. Appendices are not included in the assessment.

Each individual page of the assignment may not comprise more than 2,275 characters (incl. spaces) on average. (E.g. similar to 35 lines of 65 characters). All pages must have a margin of min. 3 cm in top and bottom and min. 2 cm to each of the sides. The fount must be of a minimum of 11 pitch. Tables, diagrams, illustrations etc. are not included in the number of characters, but will not justify exceeding the maximum number of pages.

Code of conduct:

Undersigned author hereby declare:
- that I/we individually or together with the group members listed above have written and completed this assignment.
- that I/we have indicated all quotes with quotation-marks and provided references to their sources.
- that the assignment complies with all regulations stated above regarding size and form.

Date: 30/05/2016	Signature(s):	

Application to defend thesis before all other courses are finalized

The below attached granted application grants Simen Thorsheim the right to hand in this thesis prior to finalizing all other CBS courses.

Dear Simen Thorsheim

RE. Application to defend thesis before all other courses are finalized.

The Cand.Merc.-study board has received your application of 15 January 2016, in which you request an extended exemption to hand-in and defend your Master's Thesis prior to finalizing all other courses in your programme.

The Cand. Merc. Study Board has treated your application and they have decided to grant this exemption due to the fact that you are close to your hand-in date and a solid evaluation of your study status. The Study Board expects you to attend the next available exam the course that you are missing.

The Study Board according to the University Act § 18 paragraph. 4.4 and paragraph 28 of the Executive Order no. 814 of 29 June 2010 for the undergraduate and graduate programs at universities (the Education Order), has the legal authority make decisions on cases in respect of credit, credit-preapproval and exemptions.

According to paragraph 4A. in the Programme regulations.The master's thesis must be the last element finalizing the programme. The Study Board may grant an exemption from this provision, if warranted by extraordinary circumstances, or when one or more preceding courses or course elements have not yet been passed.

Please hand-in a copy of this letter when you hand-in your Master's Thesis at the Student Hub at Graduate House.

Venlig hilsen/Kind regards
Malindi Wilks
Programme Manager
Cand.merc. studienævnssekretariat
MSc.EBA Study Board Secretariat

Cand.merc.-Study Board
SSN/MW

2016-03-03

Cpr-nr.: ███████
Line: **IBS**

CONTACT
• Malindi Wilks:

Email: dispensation-cm.eba@cbs.dk

TLF: (+45) 3815 5735

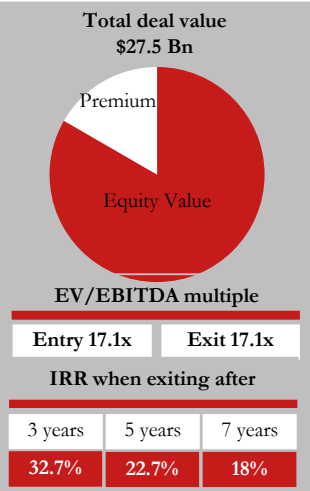## A LEVERAGED BUYOUT ASSESSMENT OF CAMPBELL'S SOUP

Campbell holds several characteristics, which in theory, should make the company a suitable LBO candidate. A strong brand, stable cash flow, sound financials, and a tangible asset base that can be leveraged such as production facilities. The packaged food industry, in which the company operates, has seen an increasing trend of general consolidation and private equity activity. The authors of this thesis thus found it interesting to assess Campbell from the perspective of a private equity investor, performing an LBO, and discussing concrete initiatives in order to create shareholder value and calculate the potential investment's profitability through an IRR approach.

Campbell is a truly international corporation, and with products in a wide range of segments within the packaged food industry. This opens Campbell up to an array of complexity in regards to competition, product strategies and regulations etc. A carefully performed strategic analysis was therefore conducted, and it found Campbell to be well positioned in its main markets. A significant portion of its brand portfolio consists of healthy products, in line with the general population's increasing preference for such, and with a reasonable level of brand loyalty. Furthermore, Campbell is seeking growth by establishing themselves in emerging- and growth- markets. In conjunction with the financial analysis of Campbell, which found the company to hold a solid stand in terms of profit margins etc., when compared to its peers, the two analysis laid the foundation on which future cash flow was projected. Ultimately the DCF model yielded a valuation slightly above the one of the public, suggesting Campbell is currently valued relatively fairly.

Empirical studies of comparable transactions indicate that an acquisition premium of minimum 20% would have to be paid in order to take Campbell private. Seen in the light of Campbell's all time high valuation, a private equity firm would have to rely on improving margins in order to create a significant return. As Campbell's main markets are saturated, margin improvement would have to come from cost-cutting. The probability of exiting at a higher valuation multiple is also perceived as low as multiples are at all time highs

Through empirical grounded "best practice" cost cutting initiatives, and a slight increase in sales, driven by emerging- and growth- markets, the authors believe an improved EBITDA-margin of 26%, up from 20% is possible. Combined with a preliminary capital structure, consisting of $17 billion debt and $10.6 billion equity (debt/EBITDA: 10.7x), of which 5.6% is amortized annually, an LBO of Campbell would yield a 22.7% IRR when exiting after five-years which in general is a satisfactory scenario.

Sidebar

May 10th Tuesday 2016

Total deal value $27.5 Bn

Pie chart: Premium, Equity Value

EV/EBITDA multiple

Entry 17.1x	Exit 17.1x

IRR when exiting after

3 years	5 years	7 years
32.7%	22.7%	18%

Geographical segmentation of revenue - 2015

The U.S. 79%

Australia 8%

Rest of the World 13%

LBO – Base Scenario

LBO – Base Scenario	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
EBITDA/Interest Coverage	2.2x	2.1x	2.4x	2.7x	3.1x	3.5x	4.0x	4.6x	5.2x	6.1x
Sales	8.296	8.567	8.830	9.135	9.457	9.731	9.965	10.174	10.327	10.482
EBITDA	1.585	1.980	2.217	2.375	2.459	2.530	2.591	2.645	2.685	2.725
EBIT	1.262	1.644	1.870	2.015	2.089	2.153	2.206	2.253	2.287	2.317
Net Earningss	364	449	634	770	866	962	1.058	1.149	1.233	1.305
Invested Capital, Net Operating Assets	27.489	27.492	27.541	27.598	27.567	27.534	27.500	27.475	27.471	27.472
Total Equity	11.576	12.025	12.659	13.429	14.296	15.258	16.316	17.465	18.698	20.002
Net Interest Bearing Debt	15.913	15.467	14.882	14.169	13.272	12.276	11.185	10.011	8.773	7.470
NWC / Sales	-3%	-3%	-4%	-5%	-5%	-5%	-5%	-5%	-5%	-5%

Heinz Kraft EBITDA % = 26%
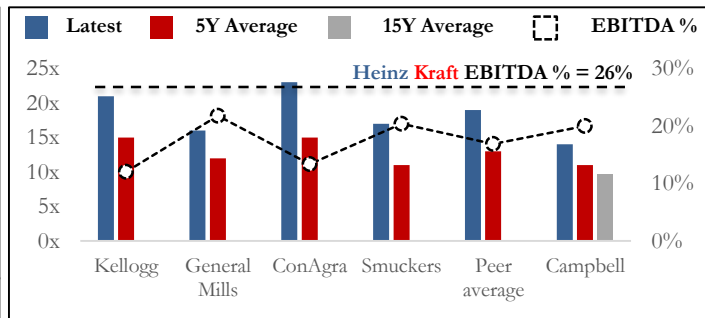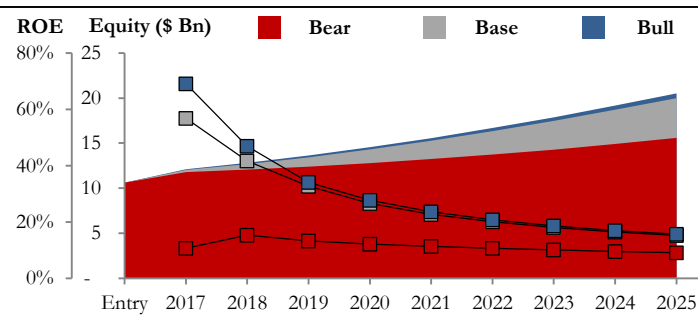
Table of Content

1 INTRODUCTION

1.1 CONTEXT AND MOTIVATION

When deciding upon a topic for our master thesis it was important for the both of us to find a topic that would challenge us, provide a platform for us to gain in-depth knowledge on something we were not yet familiar with, and at the same time within our field of interest, which is finance. Throughout our time at CBS we've both sought professional experience through student jobs and internships. While Simen has gained experience within sales and trading through several summer internships with Norwegian investment bank, DNB Markets, Adam has gained his through a student assistant role with Danish fin-tech pioneer SimCorp, and through his financial consultant role with Danish clean-tech company Photocat and its recent IPO. However, the single most significant professional experience is shared. For while Adam interned with the Zambian private equity firm Kukula Capital in the fall of 2014, Simen held the same position in the spring of 2015.

This six-month internship has been the root for deciding upon featuring a Leveraged Buyout in our master thesis. For while interning at a private equity firm usually would provide significant exposure to the complexity of LBO modeling, the underdevelopment of the Zambian debt capital markets would have it otherwise. With Zambian government bonds yielding around 20% interest rates, debt financing is simply too expensive to ride a leverage effect in highly indebted buyouts, forcing Kukula Capital to take an investment approach often more associated with venture capital firms. Our daily tasks were therefore more concentrated around "plain" M&A and regular equity investments, leaving our curiosity for debt financing unsatisfied.

After long discussion we therefore decided upon fueling our curiosity by choosing an LBO assessment as our topic. Not only would such a topic provide us with the opportunity to establish an acquaintance with the complexity of using leverage to increase equity returns, but also demand us to do a deep-dive into the strategic challenges associated with a company takeover. The compounded array of challenges would thus satisfy both of our master program concentrations, International Business and Applied Economics and Finance.

In order to further satisfy our master program concentrations and in order to secure a thesis that offered the grounds for a diversified range of strategic analysis to be performed, we sought for a truly international company to feature. It was also a desire for us to find a company that had yet to be featured numerous times in previous theses at CBS.

The choice fell on Campbell's Soup, a company represented on all continents, a pioneer within its industry, and with several of the company characteristics of a suitable LBO candidate.

Working on this thesis has been truly exciting, challenging and provided us with a steep learning curve. We are excited to present you with our findings.

1.2 PROBLEM STATEMENT

The purpose of this thesis is to assess Campbell Soup Company (Campbell) from the perspective of a private equity investor. The significant part of such an assessment will be to estimate the company's fair value and perform a leverage buy-out analysis of Campbell as of May 10th 2016. Ultimately this analysis will yield a foundation on which potential investors can assess Campbell's attractiveness as an investment.

> **What internal rate of return can a private equity investor expect to achieve through a leverage buy-out of Campbell and will it be satisfactory?**

The above problem statement leads to a range of sub-questions, which answers combined would yield a comprehensive assessment. As follows, a list of sub-questions has been formulated to each chapter. These questions will help in understanding Campbell as a company, its main value drivers, and which parameters that are especially important from the private equity perspective.

1.2.1.1 Introduction to Campbell and the Food Industry

Understanding a company and its industry is an incremental part of conducting an accurate valuation. An understanding of the industry's value chain, its main actors and characteristics, as well as how Campbell is positioned in relation to these is important to map out. This knowledge acts as a foundation throughout the whole thesis and helps analyze the correct value drivers.

- **What characterizes Campbell?**
- **What is the industry structure, especially in North America, and how is Campbell positioned?**

1.2.1.2 Leverage Buyouts

Understanding the rationale for LBO transactions contrary to other acquisition forms is important in order to assess Campbell as an investment case from the perspective of a private equity investor. The section addresses the characteristics of LBO practitioners, the required return and performance characteristics and how both operational knowledge and financial acumen is utilized to create value.

- **What characterizes a LBO candidate?**
- **What characterizes the capital structure in LBO cases?**
- **Do LBO's create value?**

1.2.1.3 Strategic Analysis

A credible forecast of Campbell's financials is dependent on a well-grounded understanding of the firm's non-financial value drivers. The section hence analyzes the external- and internal- factors that may affect Campbell's ability to create value. The analysis assesses the macro environment, the degree of competitiveness in the industry and the firm's resources and capabilities.

- **What are the key macro factors that affect Campbell? How is the current state of these factors, and what does the expected outlook look like?**

- **What is the degree of competitiveness in the food manufacturing industry and to what extent does it affect Campbell's future earnings?**
- **Does Campbell hold resources and capabilities that give them a competitiveness advantage and how likely is it to be sustainable in the long run?**

1.2.1.4 Financial Analysis

The financial statements of Campbell are restated and accounting items are separated into "operational" or "financial", thereby establishing a stronger foundation for understanding Campbell's key origins for value creation. In order to further understand Campbell's financial situation a profitability-, liquidity- and credit analysis is performed. The analyses are benchmarked to comparable firms within the food manufacturing industry. The context of comparing historical performance indicators to a peer group should yield a better understanding of the potential for future financial performance. The chapter also lays forth valuation multiples and projected consensus of sales growth and margin development by financial analysts, the purpose of this is to add context to the valuation section.

- **How has Campbell's financial situation developed historically? Does Campbell's historical financial performance indicate any forward going development?**
- **How has Campbell's financial performance developed compared to its peers?**

1.2.1.5 Forecasting

Combining the strategic- and financial- assessment, the most important drivers for value creation going forward are projected, creating a credible forecast for future earnings and profitability.

- **How are macro-, industry- and firm- specific factors expected to affect main financial value drivers, and how do these affect the free cash flow of Campbell?**

1.2.1.6 Valuation

Research has presented various different approaches to company valuation. Utilizing more than one approach is perceived as beneficial as it can be used to triangulate the results and achieve a credible valuation. Through a discounted cash flow model (DCF) a fair value for Campbell's equity is estimated as of May 10th 2016. The valuation approach also takes valuation multiples of comparable firms into account as the terminal value is estimated through EV/EBITDA multiples, rather than by making use of the more classical Gordon's growth model approach. Furthermore, the estimated equity value is tested for sensitivity in order to assess the degree of dependence to specific parameters.

- **What is a proper discount rate for Campbell's investors?**
- **What is the forecasted free cash flow?**
- **What is the estimated enterprise and equity value of Campbell?**
- **How sensitive is the IRR in regards to value drivers and key assumptions?**

1.2.1.7   LBO analysis

Having understood Campbell as a company and identified its value drivers and reliable equity value, an analysis of Campbell as an LBO candidate is performed. An acquisition premium is defined on the basis of the valuation chapter's findings. A new forecast for the scenario of active ownership is discussed, which includes both the operational value drivers as well as the capital structure. A discussion on exit price is also laid out as this is directly connected to the potential returns of an LBO. At last the findings are tested for sensitivity to its input factors and assumptions.

- **What is a credible acquisition premium?**
- **Does active ownership change the scope for Campbell's financial forecast?**
- **Can active ownership affect top-level growth?**
- **How may active owners change the firm's capital structure?**
- **What is a credible EV/EBITDA exit multiple?**
- **What is the internal rate of return in a base case LBO scenario?**
- **How sensitive is the estimate of internal rate of return in regards to value drivers and key assumptions?**

1.3   METHODOLOGY

A broad range of theories, models and sources have been applied in order evaluate Campbell as a LBO candidate. The following section seeks to account for the applied data and theory utilized in order to answer the problem statement. The authors recognize that research and methodologies may hold biases and weaknesses in relation to their application in this thesis. Such bias should be minimized and as a consequence this thesis seeks numerous perspectives and sources when analyzing the empirical findings. In effect, the authors are pursuing causal explanations and evidence through a "post-positivistic" mindset (Tracy, 2012, pp. 39-40).

1.3.1   Theory

The respective theory, frameworks and models are laid forth throughout the thesis. This approach is utilized in order to create a document that flows logically from theory to application. The reasoning behind chosen theory, data and models will be presented where it is deemed necessary in order to understand the application. The authors have furthermore assumed that the readers are familiar with general financial- and economic- terminology. Furthermore, sources are referenced using APA 6th edition.

1.3.2   Data collection and criticism of sources

The thesis is written from the perspective of an investor, and as such, only publicly available data is applied. In regards to a private equity firm, they will hold insider information prior to final execution of an acquisition, therefore there is some limitation in that regard for this thesis. The thesis consists of both quantitative and qualitative data from annual reports, research papers, industry reports and data from various data banks. It has been important to be critical both in regards to how data is gathered and to how it is presented, whether it is quantitative or qualitative data (Rienecker & Jørgensen, 2011, p. 248). For example, some authors hold incentives

to promote personal agendas. Where available, the authors have also sought to use original sources. The authors are confident that the combination of various different resources creates a sufficient foundation to answer the problem statement of this thesis.

The authors have remained critical when reading and applying information directly communicated from Campbell in order to prevent potential biases, which in turn could affect the credibility of this thesis (Rienecker & Jørgensen, 2011, p. 291). This challenge is mostly presented in regards to Campbell's own annual reports, the degree of manipulation is however presumed as low due to the fact that the information is reviewed by several 3rd parties prior to publication.

The analysis of the food industry is in large based on market data provided by Euromonitor. The data includes historical company market share and size data across sub-segments, the data is a result of a range of input sources, something that reduces the risk of biased data. Other data sources, such as AC Nielsen are often used both by the firms in the industry and analysts covering the firms and industry. This data is however restricted and hence difficult to obtain. Through various reports from AC Nielsen the trends seen from the Euromonitor data have been confirmed, resulting in a strong confidence in the data applied.

The collection of data on comparable firms have been done through their respective annual reports, this was done in order to restate all financial data in a similar manner, something that could not be guaranteed had the statement been sourced from Thomson Reuters, Bloomberg etc. The authors are confident that this approach yields data that is more comparable and hence holds a higher analytical value.

The Bloomberg database has been used in order to obtain data for stock quotes and indexes relating to Campbell, its peer group and the stock exchanges at which they are traded.

Other data sources include, but are not limited to, macro data and projections provided by the OECD and World Bank, various news media articles, national trade organizations, and a wide assortment of financial literature, as well as direct correspondence with Professor Aswath Damodaran at Stern Business School, NYU. In the application of all these sources it has been important to remain critical.

1.4   RESEARCH STRUCTURE

The defined list of sub-questions necessary to fully answer the problem statement together with the applied methodology is used to set a structure for this thesis. The thesis will be structures in 11 sections, with each section analyzing various aspects thoroughly, and linking its finding to previous sections and findings. Through the application of this structure the authors are confident they will obtain a high degree of consistency.

Introduction

Leveraged Buyouts

The Campbell's Soup Company

Strategic Analysis		**Financial Analysis**
PESTEL		Reclassification of Financial Statements
Porter's Five Forces		Defining the Peer Group
VRIO Analysis		Profitability and Risk Analysis

SWOT

Forecasting

Valuation		**LBO Analysis**
Cost of Capital		Acquisition Premium
DCF		LBO deal financing structure
Sensitivity Analysis		Active ownership forecast
		Return Analysis
		Sensitivity Analysis

Conclusion

Thesis in Perspective

1.5   DELIMITATION AND ASSUMPTIONS

- The authors have only applied publicly available information. A cut-off date has been set as of May 10th 2016. The latest reported financials were presented in February and yielded financials up to 31st of January 2016. The cut-off date relates to all information used in the thesis as well as for the valuation estimation.

- The annual reports of Campbell and its peer group are not fully comparable for two main reasons: first off, companies operate with various accounting standards, IFRS and GAAP, these have been presumed comparable. Secondly, several of the companies hold different accounting periods something that complicates the comparison. Through applying a five-year analysis period for peers, this bias is diminished. The authors acknowledge that differences in accounting policies may affect the value of a peer group analysis; the effect is however assumed to be non-significant.

- The authors have restated and applied 15 years of financial reports regarding Campbell in their analysis. The period gives a perspective that is pre- and post- the financial crisis as well as includes two different CEOs.

- Campbell has communicated a strong focus on increasing EBITDA margin going forward and scaling up recent acquisitions. Hence, no further acquisitions are assumed.

- Due to several restructuring initiatives by Campbell over the years it is difficult to analyze Campbell's operational segments in a historical perspective that is sufficiently long enough to create value. As a result, the authors have applied 3rd party data regarding Campbell's retail presence to estimate a revenue segmentation that corresponds to the segmentation provided by Euromonitor (see appendix 9).

- Campbell is a complex company which operates in several geographies and product categories. The fundamental analysis will focus on the North American market which represents more than 80% of its operations.

- In an LBO a wide array of debt covenants is applied in order to reduce credit risk and secure collateral. This is a subject not covered in this thesis.

- The strategic analysis portrays those factors deemed most critical for Campbell's performance; other unknown factors may play an important role, or come to play an important role in the future.

- Some material and analysis is presented as appendices rather than as a part of the thesis structure. The reason is that the material, however insightful, is not deemed vital in its full length to answer the problem statement.

- Assumptions are made throughout the thesis; the most critical are presented here, while others are presented where applied.

2   LEVERAGE BUYOUTS

This section gives an introduction to leverage buyouts, hereafter referred to as LBOs. The introduction explains the rationale behind an LBO transaction, discusses the potential capital structures applied and addresses in short how LBO's help create value (or not). Lastly a short overview of Campbell as an LBO candidate is presented.

2.1   WHAT IS A LEVERAGE BUY-OUT

An LBO is an acquisition method that utilizes a substantial portion of debt in order to fund the purchase of an asset. In the 1980s the method became more common, in large due to the increasing high yield bond market. Common executioners of LBO transactions are investment funds and financial sponsors, such as private equity firms. In 2015, 28% of capital managed by such firms in the U.S. was directed towards the consumer products industry (Private Equity Growth Capital Council, 2015). Private equity firms generally prefer to invest in companies with solid and stable cash flows, a strong brand, and preferably also a solid and tangible asset base that can be used as debt collateral and leveraged upon. Companies within the consumer products industry often hold these characteristics, which helps explain private equity firm's appetite for them. Private equity funds however, can have different investment strategies and many focus on firms with large growth potential but who need growth capital or firms in need of a turn-around.

The fund structure applied allows for large amounts of debt, the flipside however, is increased risk due to the relatively higher leverage ratios of the investments. In figure 1 the typical fund structure is illustrated, in essence a private equity firm creates a fund and seeks funding for that fund. The private equity firm will act as the manager (known as a General Partner) of all investments in the fund on behalf of its investors (known as Limited Partners). The investment funds typically create holding companies, which hold the capital needed to acquire the target

Figure 1.   General Fund Structure

* Purchase price ≠ equity + debt capital,
  Investment in portfolio company = equity + debt capital
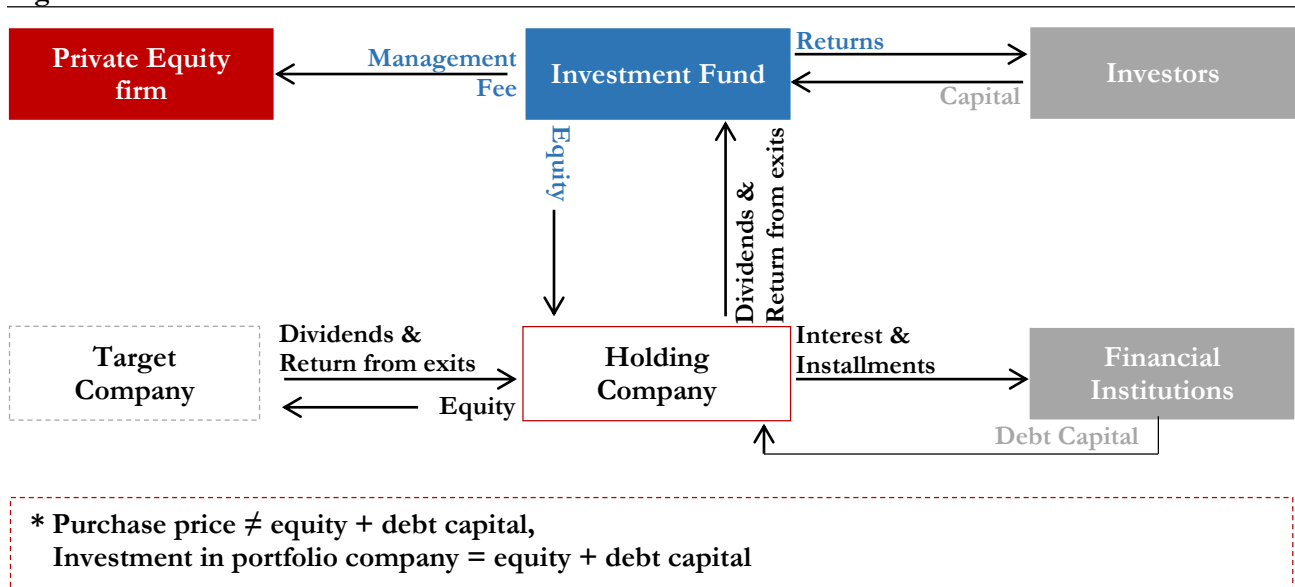
Source: Authors own compilation

company, and which is also accountable for distributing returns back to the fund and the financial institutions that provided debt.

Private equity investments are also highly illiquid as portfolio companies are privately held and therefore rarely publicly traded on stock exchanges while part of the fund. For those reasons, expected internal rate of returns for such funds typically lie around 20%, looking at some of the top funds shows that IRR ranges from 20% to just above 40% (Gottschalg & Phalippou, 2007). Private equity firms almost exclusively invest with a shareholder value perspective and an investment horizon between five and seven years, at which point the company capital structure is less risky and the company can be sold to strategic buyers, larger private equity firms or exited through an initial public offering. Evidence suggests that private equity firms are indeed able to create high returns outperforming the S&P500 by approximately 5% (Ljungqvist & Richardson, 2003). The national bureau of economic research found that private equity investments on average achieved ~1% of abnormal return compared to the S&P500 (Jegadeesh, Kraussl, & Pollet, 2009), this research is based on exchange traded funds.

One of the key characteristics of LBO transactions is that the acquired company will be so leveraged that the need to generate free cash flow is heightened. The consequence is usually a focus on cost structure and an increased focus on core capabilities, meaning that non-core activities may be divested. With debt reducing throughout the investment period, the investors effectively fuel returns through debt when the time comes to exit. For those reasons it is important that the management of such firms agree with the new circumstances, a common way to do this is by linking remuneration with financial results through for example stock options in the company. In order to be able to affect the company strategy, private equity firms usually opt to pursuing investments in which they can obtain a majority shareholding. There are however private equity funds that do not necessarily limit themselves to such acquisitions.

2.2   CAPITAL STRUCTURE IN LEVERAGE BUY-OUTS

The study of capital structure in companies acquired through LBOs is interesting. During a career, professional investors in this space gain extensive experience when it comes to analyzing and linking financial performance and capital structure (Kaplan & Stømberg, 2008). Guy Hands, a founding partner of Terra Firma, explains what they do as "*We buy stuff with cheap debt and arbitrage on the difference with equity markets*" (Financial Times, 2007). Due to the fact that firms acquired through an LBO are held privately it is difficult to obtain a picture of how the capital structure is determined, in this section, academic articles on this subject, who have been fortunate to obtain data on the matter, are reviewed.

The price of a company is usually denoted as enterprise value (EV), meaning it includes both equity and company debt. As seen in figure 1 the debt financing is usually obtained by the investment fund through a holding company managed by the private equity firm. Recent research shows that LBO transactions in North America hold a mean EV/EBITDA of 8.5x and a median of 7.7x, while public-to-private LBOs respectively have shown 8.8x and 8.6x. Looking at D/EV approximately 70% of acquisition funds are debt (Axelson, Jenkinson, & Strømberg, 2013, p.

2237). The composition of debt therefore becomes an incredibly important practice for such investments. Debt funding is usually divided amongst several different tranches, each with a different risk-return profile (Rosenbaum & Pearl, 2013, pp. 179-195).

Figure 2.   The Structure of LBO debt
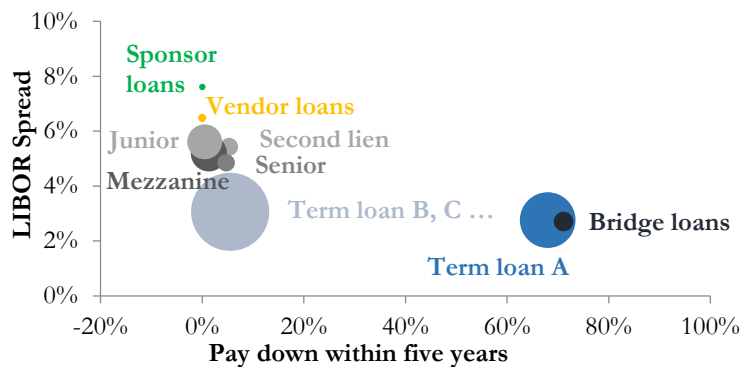
Source: Authors own compilation based on data from (Axelson, Jenkinson, & Strømberg, 2013)

The research by Axelson et al. analyzes LBOs from 1992 until 2008 and is based on a sample of 1,157 LBO transactions. The research focuses on several aspects, among them capital structure and how debt market conditions affect valuation. In figure 2 the most widely applied forms of debt are illustrating based on LIBOR spread and pay down behavior, the size of each circle indicates the percentage of each loan type in an average LBO debt capital structure (see appendix 32).

2.2.1.1   Senior bank debt

The debt category consists of term loans and bridge loans and usually represents 72.5% of total debt (Axelson, Jenkinson, & Strømberg, 2013, p. 2235). Senior bank debt usually holds the lowest risk profile and is preferential in a default scenario to most other debt. In order to secure such preferentiality, the debt has to be placed in the acquired company, term loans and bridge loans are therefore usually tunneled through the holding company to the portfolio company, this is usually referred to as "debt push down". The Axelson et al. paper indicates that the majority of term loan A and bridge loans are paid down within five years. The bridge loan is an important part of an LBO, because it enables the LBO transaction in going forward in cases where high yield debt is difficult to raise. However, it is seldom intended to be fully funded and is therefore a costly funding alternative, especially so because interest payments usually are structured in a way where they increase as the outstanding period increases (Rosenbaum & Pearl, 2013, p. 186) When it comes to term loan B and C they usually hold a tenor of around seven years and represent the largest debt category in LBOs historically. These loans are usually sold to institutional investors who prefer non-amortizing loans, with a larger coupon and a bullet payment at maturity (Rosenbaum & Pearl, 2013, pp. 183-184). Term loan A's and bridge loans have historically held a LIBOR spread of 2.71% and 2.76%, while the term loans sold to institutional investors have laid around 3.06% (Axelson, Jenkinson, & Strømberg, 2013, p. 2235).

2.2.1.2   Subordinated debt

Subordinated debt has on average represented close to 12.5% of total debt and consists of second lien and mezzanine debt (Axelson, Jenkinson, & Strømberg, 2013, p. 2235). Second lien debt is secured by a second priority to the borrower and holds collateral in assets. The loan is usually non-amortized and the coupon variable

(Rosenbaum & Pearl, 2013, p. 184) with a LIBOR spread of 5.4% (Axelson, Jenkinson, & Strømberg, 2013, p. 2235). Mezzanine debt on the other hand is a debt form usually employed when debt capital markets are sluggish and issuance of high yield financing appears difficult. Mezzanine debt may for example be structured to offer equity upside and is usually a combination of cash and non-cash PIK[1] payments, where PIK payments usually represent payments in the form of equity or debt contracts (Rosenbaum & Pearl, 2013, p. 187). Close to 10% of LBO debt has been sourced through mezzanine capital at a LIBOR spread of 5.2% (Axelson, Jenkinson, & Strømberg, 2013, p. 2235).

2.2.1.3   Bonds

Bonds usually pay interest at a fixed rate which is set at issuance (Rosenbaum & Pearl, 2013, p. 185), the Axelson et al. research indicates that this fixed rate on average is set at 4.9% and 5.6% above LIBOR for senior and junior bonds respectively. Bonds represent around 11% - 12% of total debt in an LBO transaction (Axelson, Jenkinson, & Strømberg, 2013, p. 2235). Bonds allow private equity funds to increase leverage as such debt usually holds longer maturities and lack of amortization. Bonds are primarily sold to institutional investors through a private placement, these investors then register the bonds with the Securities & Exchange Commission (SEC) after which the bonds become tradable on the open market (Rosenbaum & Pearl, 2013, p. 185). Some bonds also include payments in PIK, which on average increases the coupon by around 0.75% (Rosenbaum & Pearl, 2013, p. 185).

2.2.1.4   Other debt

Other debt may be debt from the private equity fund ("sponsor loans") or from the seller who accepts part of payment as a debt note ("vendor loans") or for example debt within the target company that is not refinanced and does not conform to the previous mentioned debt instruments. Information on vendor and sponsor loans are limited, Axelson et al. suggest a LIBOR spread between 6.5% and 7.6%, but the data is based on an assumption that vendor and sponsor loans interest is based on local Inter Bank Offering Rate + U.S. high Yield spread above U.S. LIBOR (Axelson, Jenkinson, & Strømberg, 2013, p. 2236). The assumption is arbitrary, but these loan types represent a small fraction of debt, which combined is less than 1% and therefore the presumable effect on their research is limited (Axelson, Jenkinson, & Strømberg, 2013, p. 2235).

2.3   VALUE CREATION WITH LEVERAGE BUY-OUTS

Mainly two perspectives on private equity and value creation are supported in academia. Jensen (1986) argues that private equity firms create value by applying financial and operational engineering to their portfolio companies as well as a governance structure that in essence improve firm operations and produces economic value. Critics argue that private equity firms do not create any operational value, but that they take advantage of tax legislation and that they hold superior market information enabling them to better time the market for discrepancies between debt and equity markets (Kaplan & Stømberg, 2008, p. 11). In this section we look into each argument and review academic findings on the matter.

---

[1] Payment in kind: for example, paying interest through equity stake instead of cash

2.3.1.1 Management incentives

As previously mentioned, it is important for private equity firms to incentivize management in the most effective manner. This is often done by giving management an equity upside, either through stock options or by having management invest in the company themselves, or both. Some research has indicated that management ownership increase by 4x when a company goes from public to private (Kaplan & Stømberg, 2008, p. 11). Another factor is that the management is usually unable to sell equity and options until an exit because the company is no longer publicly traded which reduces management's incentive to affect short term performance (Kaplan & Stømberg, 2008, p. 11).

2.3.1.2 The effect of leverage

A higher degree of leverage means that the portfolio company will have to manage its cash flow more stringently as it needs to make both interest payments and installments, which now represent a higher fraction within the company cost structure (Kaplan & Stømberg, 2008, p. 11). This effect is largely connected with the governance effect proposed by Jensen (1986) where management in operating within weak governance structures may dissipate cash flow rather than returning them to investors. On the other hand, too much debt makes it increasingly difficult to maintain the cost of debt which in turn increases the probability of financial distress.

2.3.1.3 Governance Structure

Investors who employ the LBO model for an acquisition are often in control of the company board and play an active role when comparing to public companies. According to several researchers, boards of portfolio companies are both smaller than public companies and meet more frequently (Gertner & Kaplan, 1996; Acharya, Hahn, & Kehoe, 2011; Cornelli & Karakas, Private Equity and Corporate Governance: Do LBOs Have More Effective Boards?, 2008). According to Acharya et al. (2011) a third of directors are replaced within the first 100 days after an acquisition, and more than half are replaced within four years. Private equity firms therefore appear to be less hesitant to replace those who perform poorly.

2.3.1.4 Operational engineering

Today the private equity industry has grown immensely since the 1980s. Often such firms are structured based on industry teams, and most of the top performing private equity firms actively employs internal and external strategic and operational consultants (Kaplan & Stømberg, 2008, p. 12). One example is Jack Welch, former CEO of General Electric, who now is affiliated with the private equity firm Clayton Dubilier. These consultants help analyze and implement potential cost-cutting opportunities, productivity improvements, M&A strategies or other initiatives aiming at creating shareholder value (Acharya, Hahn, & Kehoe, 2011; Gadiesh & MacArthur, 2008). Most research from the 1980s and the 1990s indicate that firms experience positive effects post-LBO due to increased operational efficiencies (Kaplan & Stømberg, 2008, p. 12). For some reason the availability of data has become more restricted and as a result, research suffers from limiting data sets. Guo et al. (2007) analyzes deals performed in the U.S. between the year 2000 and 2006, they find increasing operation and cash flow margins, but the results are marginal compared to those performed in the 1980s and 1990s (Kaplan & Stømberg, 2008, p. 13).

The studies should however all be reviewed with caution, as the limited access to data may mean that there is a presence of survivorship bias (Kaplan & Stømberg, 2008, p. 14).

2.3.1.5 Tax shield

By leveraging companies, these firms are able to increase the amount of tax deductions, further referred to as the tax shield. Kaplan (2008) show that the tax shield may explain between 4% and 40% of a firm's value. Kaplan's lower estimates assume that all LBO debt is paid back within an eight-year period, while the high estimate assumes that all LBO debt is held indefinitely. In section 2.2 the capital structure of LBOs was discussed and on that basis the value of the tax shield is likely in the middle, closer to the low estimates. This is because the majority of debt (i.e. term loans) is usually paid after five to seven years. Kaplan (1989a) proposes that the value of a tax shield represents between 10% and 20%, the value of the tax shield brought on by increased leverage is therefore difficult to assess (Kaplan & Stømberg, 2008, p. 15).

2.3.1.6 Asymmetric information

Some lay forth a linkage between private equity's ability to create value with asymmetric information on future performance for the target company. Such information is for example put forth by management prior to a deal because these managers favor a private equity buyout (Kaplan & Stømberg, 2008, p. 15). This is difficult to prove or disprove. Some management may favor a private equity buyout because it may give them a higher equity upside, but on the other hand, the high performance of private equity portfolio companies may also be a result of better incentives for management to drive shareholder value. There is some evidence suggesting that private equity firms do obtain favorable acquisition prices, but there is no linkage to incumbent management. As mentioned in section 2.3.1.3 private equity firms replace a large degree of management, and the probability for managers to see equity incentives is low. The research body indicates that returns are likely closer linked to negotiation skillset by private equity firms and/or funds ability to time the market (Kaplan & Stømberg, 2008, p. 16).

2.4 CAMPBELL'S AS A POTENTIAL LBO CANDIDATE

When Warren Buffet's Berkshire Hathaway partnered with 3G Capital in 2013 to acquire Heinz, speculation around future deals and the intention behind the acquisition naturally occurred. Some financial journalists speculated that the acquisition was a stepping stone in Berkshire Hathaway's way to create a new food conglomerate (Ballaban, 2013). In 2014 those speculations proved correct when Heinz merged with Kraft Foods in a $40 billion takeover deal (Gara, 2015). With such large moves seen within the packaged food industry, companies like Campbell and its other peers (i.e. General Mills, ConAgra etc.) are also objects for speculation, the question is then, if this speculation is grounded in fundamentals.

The capital structure of Campbell's as of 31/01/16 (second quarter 2016) was conservative with a NIBD-to-EV ratio of less than 0.2, the EV/EBITDA however was above 15x. Looking at these key metrics for indication therefore yield some mixed results. As noted in section 2.2 LBOs utilize a high degree of debt, and in that regard there is definitely opportunity to increase the leverage of Campbell, but with valuations so high compared to

EBITDA it becomes questionable whether it is possible to leverage as much as the industry median of around 70%. The share price of Campbell has also continued to increase since its latest quarterly report. The strategic and financial analysis will also show that the key issue for Campbell has been slow growing revenue, they have however, been able to improve margins, and hold competitive margins compared to peers. High operational margins likely mean a reduced likelihood of being able to increase operational efficiency, the ability to grow revenue and implement a more value creating capital structure for shareholders therefore appears to be the two key elements when analyzing Campbell as a potential LBO candidate.

3 INTRODUCTION TO CAMPBELL SOUP COMPANY

With a history stemming back all the way to 1869, Campbell's Soup Company is one of the world's largest food processing companies with operations in more than 120 countries. In the beginning the company produced various canned products, such as minced meat, tomatoes, jellies, soups vegetables, etc. What moved this company into a larger player was its ability to condense soup. In 1897 a young chemist, Arthur Dorrance, began working for Campbell and he ultimately developed a method for condensing the soup by halving the quantity of water. Later on Arthur Dorrance became the president of the company and bought out the Campbell family.

In the latter half of the 20th century Campbell's Soup Company became a public company and started to increase its brand portfolio to include breads, cookies, crackers, gravies, pastas, juice, chocolates and baby food. Today the company sells its products all over the world and is currently valued at $2.1 billion, with annual sales of more than $8 billion.

3.1 CAMPBELL'S BUSINESS MODEL

Campbell is a food processing business, they produce goods such as canned soup and vegetables, different types of snacks such as biscuits and crackers and juices. As of 2016, Campbell re-organized its business into three divisions: *Americas Simple Meals & Beverages, Global Biscuits & Snacks and Campbell Fresh*. The ingredients that go into producing and packaging their products are purchased from various suppliers. Once produced, the products are sold through Campbell's own sales force and third party partners. Their products are usually sold through commercial and non-commercial retailers, such as retail food chains, mass discounters, mass merchandisers, convenience stores, drug stores, dollar stores and other retailers. Their largest retail buyer is Wal-Mart, accounting for approximately 20% of Campbell's revenue.

Strategy

In short, Campbell redesigned their business operations in late 2015. The re-organization is anticipated to help cut costs as well as make Campbell a more transparent and agile company ready to pursue growth. The company has targeted $300 million in annual cost savings, aimed at being fully achieved by 2018. In 2015 they delivered cost reductions of $85 million towards this goal.

The strategy going-forward can be split into two categories; strengthening core business and expanding into faster growing markets. The strategy is expected to lead organic growth in net sales of 1% to 3%, while earnings before interest and taxes are expected to grow from 4% to 6%.

Strengthening Core Business	Expanding into faster growing spaces
Setting the standard for transparency	Increased emphasis on Health and Well-being
Strengthening digital connections	Increasing presence in developing market

3.2 THE NAME BRANDED PACKAGED FOOD INDUSTRY

The following outlines the competitive environment in which Campbell's operates. Thus, the aim is to introduce the fundamental structure of the packaged food industry, such as defining the suppliers, customers and substitutes. The authors believe understanding the competitive environment is essential before going further into detail through the strategic analysis.

3.2.1.1   The supply chain

The packaged food industry's supply chain consists of several different players, all of which collaborate in terms of logistics, marketing, product development, communication, administration etc. Depending on the distribution form, the different distribution joints in the supply chain will have different responsibilities and functions. Figure 3 shows a typical supply chain seen within the consumer products industry.

Figure 3.   **The traditional consumer products supply chain**

Production > Processing > Wholesale > Retail > **Consumption**

■ Controlled by Campbell's
■ Controlled by retail chains
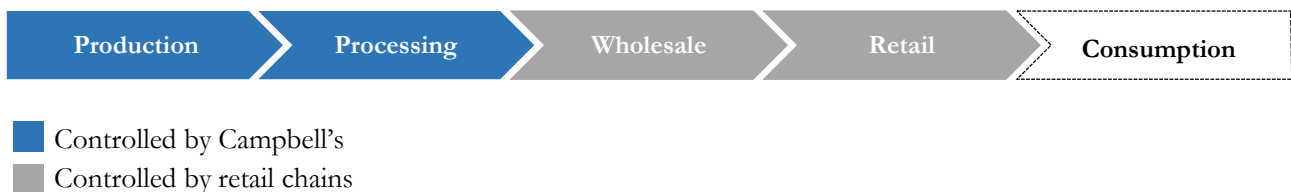
Source: Authors own compilation, based on (Pettersen, 2013)

Campbell's core-business evolves around the production and processing of packaged food, and in order to secure the continued flow of Campbell's products through the supply chain, Campbell rely on mutual beneficial relationship with other industry players. Due to the interdependency of these relationships, they have a tendency to be long and stable one's. Campbell's most important relationship is with the retail chains, which usually control logistics and transportation through owning of their own wholesalers, hence affectively control the remaining parts of the supply chain (collared grey in the figure above).

3.2.1.2   The value chain

The name branded packaged food industry consists of numerous business units serving different purposes, but in simple terms the industry can be divided into three main groups, suppliers of raw material, manufacturing and processing companies and distributors, the latter consisting of both wholesalers and retailers. While Campbell's market their product towards the end consumer, the fact remains that they sell to distributors, which act as intermediate customers for Campbell. The name branded packaged food industry value chain is illustrated in figure 4 below.

Figure 4. **The name brand consumer product value chain**

R&D	Sales & Marketing	Operation & Planning	Manufacturing
• Product development and	• Brand mgmt. • Consumer marketing • Account mgmt. • Category	• Demand planning • Supply planning • Network planning	• Production

Consumers	Distribution	Transportation & Logistics	Outsourced Manufacturing
	• Retailers • Wholesalers • Convenience	• Transportation • Shipping &	Suppliers
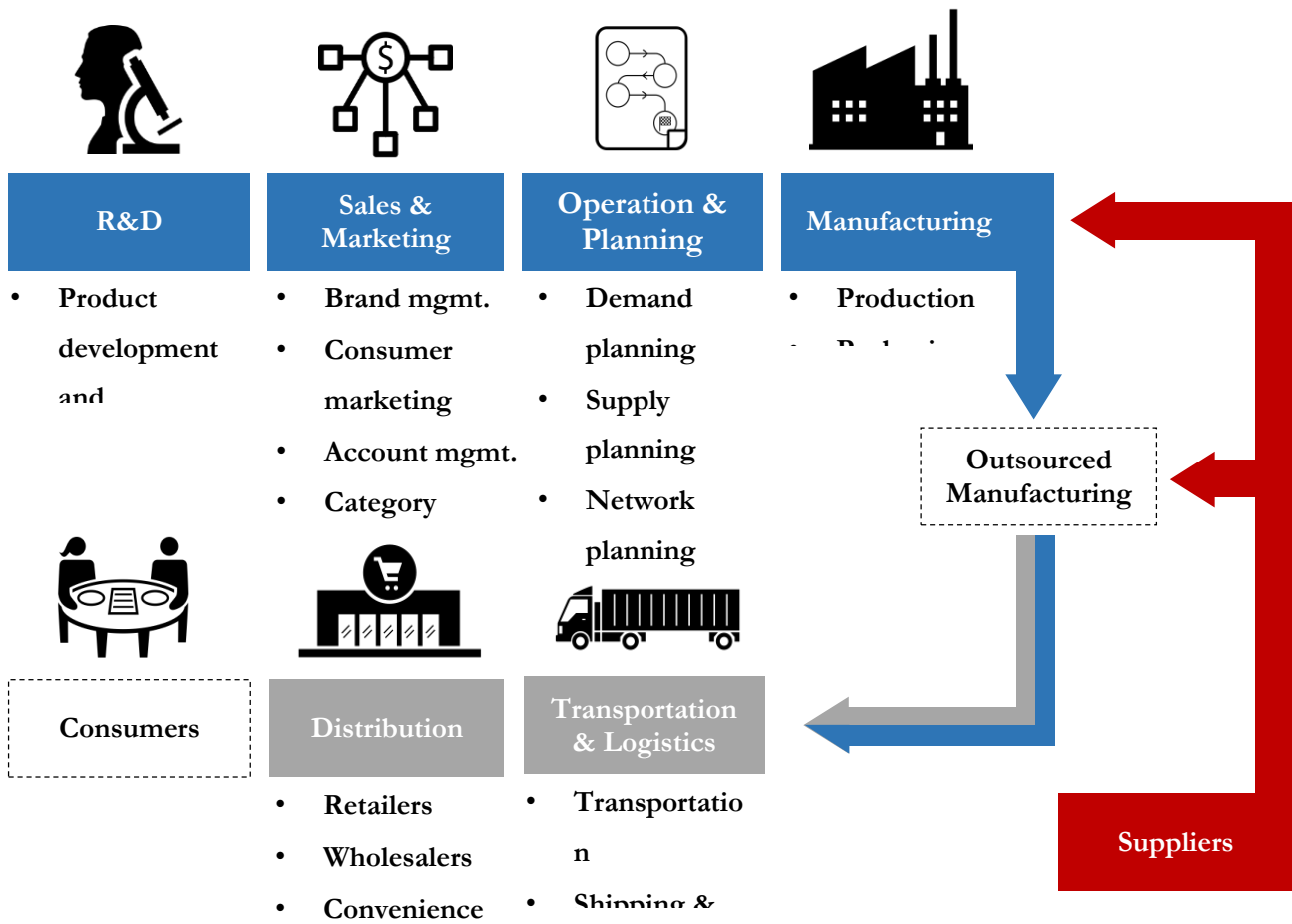
■ Represents the part of the value chain controlled by Campbell's

◪ Represents the part of the value chain controlled by a third party

Source: Authors own compilation

3.2.1.3 Competition within the branded packaged food industry
3.2.1.3.1 The international branded packaged food industry

The international branded packaged food industry is categorized by a limited number of multinational corporations (hereafter referred to by its acronym MNC's), such as Procter & Gamble, Nestle, Unilever, Coca-Cola, PepsiCo and ConAgra Foods, too mention a few (Consumer Package Goods Practice, 2010) Despite having operations in more than 100 countries, Campbell's primary markets are the U.S. and Australia, which account for about 93% of the company's revenue (Campbell Soup Company, 2015a). However, Campbell is still affected by the consolidated characteristics of the international industry due to their investments in growth markets outside the U.S., Australia and Asia.

From a global perspective, less developed and emerging markets have become the main accelerator for growth within the branded packaged food industry (McKinsey, 2010). However, adapting to local taste and culture has proven to be a challenge. With a need for significant investment in everything from marketing to setting up a warehouses or production facilities, entering emerging market is running a great risk. On top of all the operational risk comes the obvious currency risk associated with most emerging markets. As of lately many emerging economies have seen their local currency devalued against the US dollar, Campbell even communicated this as the key reason for low growth in emerging regions last year (Campbell Soup Company, 2014a).

The packaged food industry's margins are highly vulnerable to fluctuations in prices on raw materials, and in foreign markets, currency exchange risk pose yet another issue. A common practice is therefore to hedge against these fluctuations in order to limit the risk associated. Hedging, however, is usually a "month-by-month" activity with limited ability to withstand long-term price increase. In the case of long-term price increases, above the relevant GDP, manufactures like Campbell need to transfer this additional cost to the end consumers, and do so by simply raising the price on their products. An alternative is to try improving their own efficiency in order to absorb the increased cost of production themselves.

In relation to the currency risk, this may even sometimes be difficult to hedge altogether, and if so, highly expensive due to illiquid financial markets in emerging economies (Finance, 2013). Although this is less of an issue in Asia than in Africa.

The combination of substantial investment requirements in relation to sales and marketing, as well as the need to be of some size in order to gain reasonable bargaining power with the powerful retail sector, results in a significant scale advantage within the packaged food industry. Benefits from economics of scale are thus driving the long-term consolidation trend seen within the industry (Brennan, 2013).

3.2.1.3.2 The U.S. branded packaged food industry

The U.S. market has been hampered by slow growth and a consumer shift towards healthier eating options, which as of late has changed the U.S. industry dynamics. In response, the industry's pioneering leaders like General Mills, Kellogg's, PepsiCo, and Heinz Kraft, to mention a few, are adapting their portfolios to include healthier options (Soni, 2015). An increased focus on the aging population is also expected, and will increase new product development and marketing that targets this demographic (Canada, 2010).

"Hartman Group finds that in the past five years, roughly half of the largest packaged food and beverage holding companies have been unable to keep their U.S. retail topline growing commensurate with either inflation or the sector average. It is the small incumbents and private label that are generating the most consistent, strong growth in the market (Group, 2015)."

U.S. consumers are known to be very good at identifying the average-, low- and high-priced products at the shelf, partially because pricing information is highly transparent in stores (and increasingly so across channels in real time).

Products offering health benefits such as cholesterol reduction properties and high fiber content, are likely to have stronger growth than those offering a reduction in fat or sugar. Consumer concerns about the safety of the U.S. food supply are growing as the number of food recalls has increased in recent years. Consumer concerns about food safety, however, have not had a negative effect on the packaged foods industry as a whole, but have rather affected certain categories and companies. The growth of premium and organic private label foods will aid those retailers who can present an appealing, high quality, well-priced line to consumers. U.S. consumers are seeking out impulse and indulgence products positioned as nutritionally beneficial or lower in calories, while still tasting good (Canada, 2010).

3.2.1.4 The branded packaged food customers

As mentioned earlier, packaged food manufactures like Campbell sell directly to retailers who act as an intermediate customer. While Campbell's products are marketed towards the end-consumer, they are highly dependent on cooperation with retail chains, which control distribution. Hence, retailers play an incremental role in pushing Campbell's products because they control the final place of purchase. The retail chains enforce strict product range management, where no product is automatically accepted onto the shelves. Adding a new product to their offering will often mean discontinuing another, new products therefore need to be highly competitive in terms of price and quality. Preferable they would also be associated, or in line with other products already proven to appeal to end consumers, in order to be able to exploit already established customer loyalty.

Furthermore, the product launching windows, which is the scheduled time for negotiation between manufactures and retailers, concerning which new products that will gain shelf space that season, are often limited and short (Pettersen, 2013). Thus, branded packaged food manufacturers are dependent on successfully navigating through these fierce negotiations in order to both maintain their shelf space and secure a position for new products. The competition between food manufacturers is tough, especially in saturated markets like the U.S., Australia and the majority of Europe, which only strengthens the retail chains already strong position in these negotiations. With that being said, it's important to also mention that these negotiations usually end with compromises being made, on both ends. The most common ways in reaching these compromises comes in the form of different discount structures, for which the three most common ones are illustrated in figure 5 below.

A production line discount is usually given per unit, based on the manufactures listing prices. If manufactures give product line discounts to a retail chain, and the magnitude of this discount, depends on the returning favors given

Figure 5.   Central discounts and allowances arrangements

Manufacture

1. Product discounts
2. Yearly bonuses
3. Joint marketing

Retailer

Source: Authors' own compilation based on (Pettersen, 2013)

by the retail chain. Ultimately, the discount depends on the manufactures range selection in the retailers stores, shelves space etc.

Bonuses in the form of a given percentage, often given on the whole volume from a manufacturer, that is to say, one percentage for the total sales of all the manufactures products through the specific retail chain. A yearly bonus might be given on different grounds, and the use of such bonus arrangements varies.

Joint marketing might include payments for ads in retailers offer newspapers, in-store marketing activities, such as tasting stands etc., or a specific shelf space during a campaign period.

In summary, manufactures can use these negotiations tools to achieve better shelf space and to incentivize retailers to push their products more intensely; on the other hand, it also allows the retailers to bargain for discounts.

3.2.1.5   Suppliers for the branded packaged goods industry

Campbell's suppliers can primarily be divided into three groups: agricultural ingredients, additives & supplements and packaging materials. Agricultural ingredients are usually standard ingredients and produced in big scale, additives & supplements are usually sourced from specialized R&D firms while packaging materials are relatively standardized (plastics, paper, steel, aluminum etc.) and are produced all over the world. The final packaging solutions purchased from food and beverage manufacturers are however usually produced close to the manufacturing sites of the food products, either by other firms or by the food manufacturers themselves.

Figure 6.   Main Supplier Groups

| 1. Agricultural ingredients | 2. Additives & supplements | 3. Packaging materials |
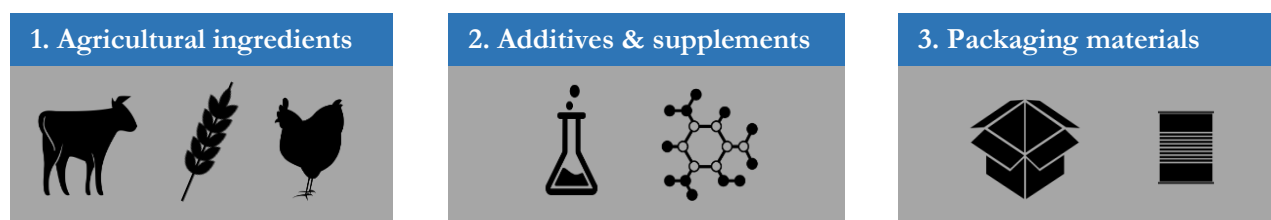
Source: Authors' own compilation

3.2.1.6   Substitutes for the branded packaged food industry

One can argue that packaged food competes against and can be substituted by different foods across all product categories and from all vendors and sources. In all simplicity, all food serves the same purpose, and what is considered a substitute is therefore a matter of individual consumer preference. A consumer looking to buy biscuits from Pepperidge Farm could choose to buy a different brand, or he/she could simply choose to buy a totally different product like nuts, potato chips, chocolate, dried fruits etc., which to him/her serves as a substitute. The competition can therefore be described as extremely diverse, making marketing, promotion and branding absolutely key. Additionally, consumers have the choice to make their meals from scratch using unprocessed goods, along with the option to simply dine out or bring home takeaway.

4 STRATEGIC ANALYSIS

The section analyzes Campbell and its industry through a macro-, industry- and firm specific- perspective, aiming at identifying the key factors affecting Campbell's ability to create value for its shareholders.

4.1 PESTEL

The PESTEL framework became wildly used by academics in the 1980's, and despite the different use of connotations, the analysis has become a commonly applied structure to evaluate macroeconomic factors influencing an industry and its participating businesses. According to the model, the macroeconomic factors affecting a company are: political, economic, social-culture, technology, environmental and legal. Each section will describe the current and expected future impact of a factor on both the packaged foods industry and Campbell. The analysis will focus on Campbell's core markets, which are the U.S. and Australia, but will to some extent, also look into China, which is one of Campbell's expected growth markets. As can be seen in figure 7 the U.S represents approximately 80% of Campbell's revenue base, Australia signifies around 8%, and then the rest of the world accounts for 12%. In general Campbell's product portfolio is evaluated as a whole, however, the width of Campbell's products may mean that business segments are affected differently by the macroeconomic factors, in such cases these will be discussed. A five-step scale is used to rate each factor in regards to impact, starting from "Very Negative" to "Very Positive". A high rating indicates a higher possibility for value creation and profitability in the industry, while low ratings indicate the opposite.

Figure 7.   **Revenue split per geographic segment**
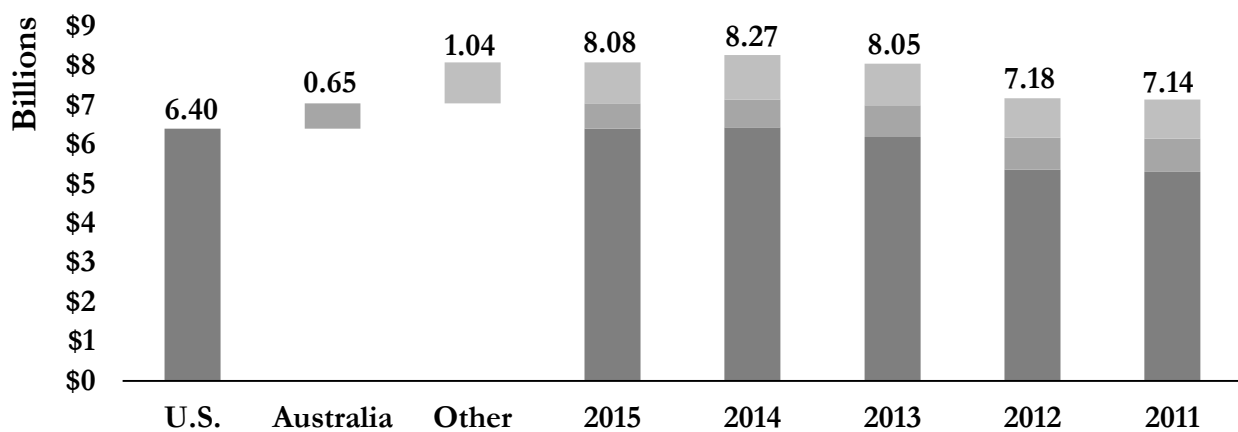
Source: Authors own compilation, based on data from (Campbell Soup Company, 2015a).

The section seeks to add valuable insight into the general political and legal environment that affects Campbell's and the packaged food industry.

4.1.1.1   Trade Barriers & Conditions

4.1.1.1.1   The Trans-Pacific Partnership (TPP)

The long awaited trade agreement known as the Trans-Pacific Partnership (here after referred to by its acronym; TPP), was finally signed in February 2016, after seven years of negotiations. The agreement contains measures to lower trade barriers between its twelve members, consisting of Singapore, Brunei, New Zealand, Chile, USA, Peru, Vietnam, Malaysia, Mexico, Canada, Japan and Australia, the latter serves as Campbell's single largest market outside the U.S. The agreement will reduce 18,000 tariffs, and all U.S. manufactured goods and almost all U.S. farm products will see tariffs being eliminated completely and immediately. As for Campbell, this means a free flow of their products to all member countries of the agreement, hence also a broader more attractive market for potential expansion within the Pacific region (BBC, 2016).

Furthermore, the U.S. government has considered the TPP as the companion agreement to the proposed Transatlantic Trade and Investment Partnership (TTIP), a similar agreement between the U.S. and the European Union, negotiations are expected to be finalized in 2019-2020 (U.S. Department of State, 2013).

4.1.1.1.2   China

Expanding domestic consumer demand in China is deemed as a crucial move in terms of achieving a stable economic growth. It was therefore decided at the Chinese State Council in 2015, that steps would be taken to improve policies on the import and export of consumer goods. A pilot program, lowering the import tariffs on certain foreign daily consumer goods has therefore been launched, and other steps will be taken to gradually broaden the range of products qualified for lower tariffs. So far the pilot program has slashed imports tariffs on daily consumer products by an average rate of 50% (Hong Kong Trade Development Council, 2015). This action is the latest in a long line of policies encouraging a freer flow of goods between China and its trading parties. In regards to Campbell the current tariffs are highly favorable, as all Campbell's products fall within the product categories that have seen import tariffs being cut in half, compared to just a few years ago.

4.1.1.2   Regulation

"Growing concerns about the public health, social issues, the environmental and sustainability are encouraging governments to examine increasingly aggressive approaches to the regulation of different categories of consumer goods, as well as introducing – and raising existing – product taxes" (Deloitte, 2013).

Figure 8.   Expected regulation in U.S.

Product content	Early restriction on un-natural and harmful additives
Product labelling	Ingredients labelling and nutritional content
Product health warning	Nutritional content displayed as warning
Advertising restrictions	Advertising for certain foods, especially when concerning children
Sale & possession	Vending machine content restrictions in schools
Point of consumption	Stricter guidelines regarding food content served at schools
Product taxes	Utilizing tax as a tool to promote healthier and sustainable consumption

Source: Authors own compilation based on data from (Deloitte, 2013)

While these regulations are, to-date, primarily targeting unhealthy products like tobacco and alcohol, the trend has also started to effect other product categories, in particular, unhealthy food and beverages. As an example, the Danish government raised taxes on unhealthy food and drinks by 25% in 2010, and the UK are currently considering raising their taxes on average soft drinks by 30% (Deloitte, 2013). While similar measures are debated in Campbell's main markets like the U.S. and Australia, these debates primarily take place in the media, and actions taken by public authorities are yet to be seen.

In order to understand how these regulatory changes are likely to develop in the future, we need to understand what has influenced them so far. A case study conducted by Deloitte shows that particularly two factors stands out, the increasing fiscal pressure on governments, and their increased willingness to intervene to promote public health. The first factor has seemingly been trending since the financial crisis in 2008, and many governments across the global have already increased their revenue streams through higher product taxation in order to try to balance their fiscal budgets.

The second factor has also played its part as the global rise on obesity has incentivized governments to interfere with people's diets through the form of regulations. The cost of obesity in the U.S. for example, has been estimated to rise to about $344 billion in medical-related expenses by 2018, which would eat up about 21% of the nation's health-care spending (United Health Foundation, 2013). Looking at the problem from a global perspective, the World Health Organization (WHO) estimated in 2014 that 1,9 billion adults (20 years and older) were overweight, and that 600 million of these where obese (World Health Organization, 2015).

While some governments deal with obesity through enforced regulations and taxes, many make use of softer measures, and simply encourage and incentivize for increased transparency of product content. The "Facts Up Front" initiative, a nutrient-based labeling system is such an example, and can be found featured on the front of

the majority of Campbell's products. The "Facts Up Front" labels summarizes important information from the Nutrition Facts Panel in a simple and easy-to-use format on the front of food and beverage packages, and does so aligned with the U.S. Food and Drug Administration (here after referred to by its acronym; FDA) and the U.S. Department of Agriculture (here after referred to by its acronym; USDA) guidelines and regulations. Through "Facts Up Front", participating food and beverage companies will place icons on the front of their products that display calories, saturated fat, sodium and sugar per serving (Campbell's Nutrition & Wellness, 2016c). The Guideline Daily Allowance (GDA) display is another example, and can be found featured on the front of packaging of some food products in the EU. The common goal for such labels is to educate consumers on the dangers of less healthy products, and in the future such labels are expected to become increasingly more common, many experts also believe they will become mandatory by law, rather than simply encouraged.

What is also seen today is that the less developed and emerging markets have tended to adopt the regulations first introduced in developed market, however, usually with some lag time, but in the future, this lag time is expected to be shorter.

4.1.1.2.1   The environment
The negative effects in the environment caused by the manufacturing, distribution and disposal as a result of over-consumption of consumer products is considered a significant cost to society. However, the effects have proven hard to measure and calculate accurately, and have also yet to be systematically targeted by most governments. Some governments however, are paving the way in this area, like France, who in 2015 banned retailers right to throw away or destroy unsold food. Given the increasing concern of the skewed distribution of wealth in the world, and the misplaced allocation of resources over-consumption accounts for, experts expect a continued development in this direction on a global scale (Chrisafis, 2016).

4.1.1.2.2   Food additives
The world has never been more concerned about what we eat; yet it has never been less transparent than it is now, primarily due to genetic modification and the disadvantages that comes with big scale-farming and production where pesticides and additives often play a significant role.

The FDA classifies food additives as the following:

 "Any substance that is reasonably expected to become a component of food is a food additive that is subject to premarket approval by FDA, unless the substance is generally recognized as safe (GRAS) among experts qualified by scientific training and experience to evaluate its safety under the conditions of its intended use. (U.S. Food and Drug Administration, 2014)*"*

The restrictions on food additives in the U.S. are not expected to become much stricter in the future. The governments will rather enforce transparency in terms of what products contain, in order educate the consumer on how to maintain a healthy diet.

4.1.1.2.3   Genetically modified organisms

The U.S. has a relatively well-established set of national regulatory bodies which appear to function reasonably well, and which adequately aim to protect the safety of food produced in the country. Compared to Europe, the U.S. has not experienced any regulatory failures in late years. There has however, been periodic food safety scares, but they have been relatively minor and their political impact has been short-lived (Lynch & Vogel, 2001). The U.S. is considered the birthplace of GMOS's and the regulations on them are considered fairly transparent and well known to industry pioneers like Campbell.

The EU on the other hand, has struggled to put into place a regulatory structure on a union level, as member country have their own regulatory institutions. While the U.S. regulatory structure underwent its "child diseases" a long time ago, Europe is only beginning to address the challenge of balancing scientific risk assessment with public confidence (Lynch & Vogel, 2001).

So while the European regulatory landscape lacks the transparency of the American system, it still represents little difference to Campbell, as Europe is only a very small percentage of their revenue, and since very little production takes place in the region. In terms of selling Campbell's U.S. manufactured products in Europe, the EC Directorate-general for agriculture and rural development states that the regulations concerning the import and sale of GMOs for human and animal consumption grown outside the EU, and which contains greater than 0.9% of approved GMOs, must be labeled accordingly (Lynch & Vogel, 2001).

4.1.1.3   Summary

Major MNC's like Campbell's, which are exposed to a complex array of different regulatory issues across a wide spectrum of geographies and products categories, need to further raise their awareness towards regulation, and preferably engage and adapt to regulatory changes prior to their appeal in order to be at the forefront. Campbell's have long been proactive in this regard, for example through the "Facts Up Front" initiative, for which they have been onboard since the beginning. The authors further expect Campbell's to maintain their pioneering position as a "new thinker" and early adapter to the massive global health focus development but that political and legal factors sustain a moderate impact on the surrounding business conditions.

4.1.2   Economic factors

The food processing and beverage industry is mainly driven by consumer demand, which is highly dependent on general economic development (GDP), population growth, changes in disposable income and prices for input materials such as agricultural raw materials and packaging materials. Companies like Campbell are also exposed to both changes in currencies and interest rates mostly related to markets in which they sell their product, but the two will in general have an effect everywhere Campbell holds any form of operation. These factors, in large, determine demand and Campbell's ability to be profitable.

4.1.2.1 Real GDP and the Middle Class development

An important indicator of a nation's economy is the real GDP. It is a measure of the total production of goods and services and is indirectly linked to an economy's ability to create corporate profit and jobs. The general rule amongst economists is that the real GDP should grow between 2.5% and 3.5%, this is perceived as good balance between inflation and the ability to create jobs and a growing economy (Kahn, Yahya, Naumann, & Farooq, 2013, p. 903).

Figure 9. **Real GDP growth in 2005 USD**
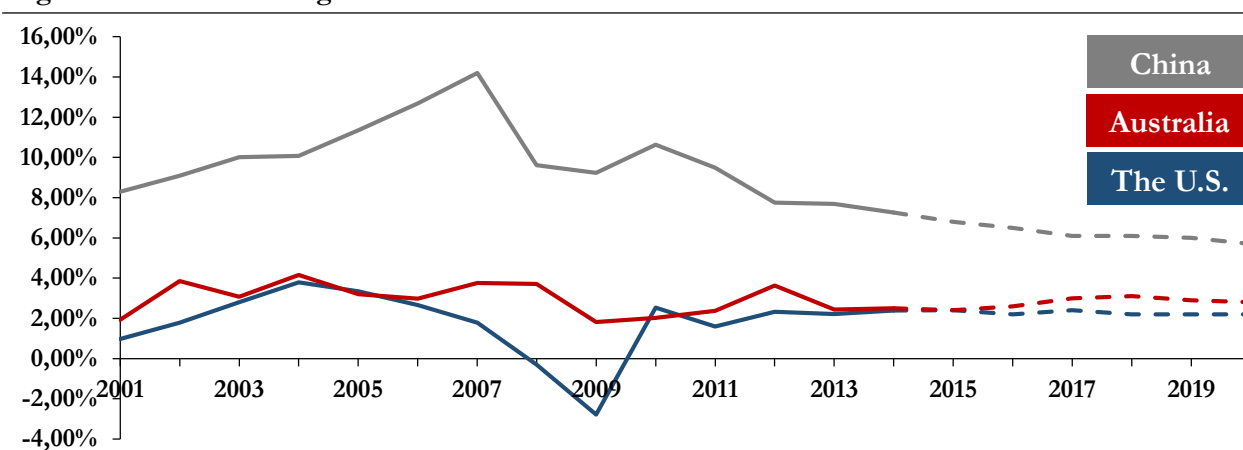
Source: Authors own compilation, based on data from the (World Bank, 2016a)

In the U.S. GDP experienced reduced growth from the "consensus normal" from 2005 till 2009 but has since stabilized between 2.5% and 3.0%. The Australian GDP has seen relatively stable growth, but it too experienced lower growth during the financial crisis, but less so than the U.S. The Chinese GDP growth has since 2012 seen continuously decreasing growth rates and is expected to continue so the next five years. The reduced growth in China has caused great concern as being the second largest economy in the world does affect a wide range of markets and industries. However according to data from the world bank this is not the case for retail spending in China, which has experienced growing rates since the financial crisis in 2009, and was recorded at 11% in 2014 (See appendix 6). The developed markets are expected to incur real GDP growth between 2.5% and 3.5% while the developing markets are expected to be more volatile as some economies transition to service economies, experience a growing middle class as well as a breadth of other factors.

The U.S. middle class represented in 2015 20.4% and is expected to represent 20.9% in 2020, in Australia the middle class represents 24.9% and is forecasted to be 25.5% in 2020, in China the middle class is projected to increase from 22.4% to 23.1%. For the retail industry, and especially the case for branded products, a large and strong middle and upper class is important because they have the ability to drive the most consumption.

For decades, China has enforced a one-child policy, a policy that is likely to be one of the main reasons for the population growth being around 0.5%.

4.1.2.2 Annual disposable income per capita

The development in annual disposable income per capita was in 2013 $39.114, $31.031 and $5.470 (USD 2005 base year) for the U.S., Australia and China respectively (World Bank, 2016b). The full development and year-on-year growth can be seen in appendix 6. but has in general seen a similar trend to real GDP. Since 2001 the disposable income in China has grown at CAGR of 14.7% in comparison the CAGR for the U.S. disposable income was 0.8% and 2% for Australia. This is a great indication that developed markets are saturated and may help explain why many consumers are seeking lower priced alternatives to name brand product. The growth rates for disposable income are expected to grow at a faster pace going forward, in China the estimated CAGR until 2020 is 10.9% while it expected to grow by 3% to 4% in the U.S. and Australia.

4.1.2.3 Consumer Confidence & Expenditure

For the last quarter of 2015, Nielsen reported a consumer confidence index of 97/100 which is the same level as the year before. For the U.S. there was no change in confidence while both Australia and China saw consumer confidence increase slightly. Only the Chinese consumers, out of the three segments, are considered optimistic. However, an increasing amount of the respondents in China also felt that they were in a recessionary environment (29%), also, while the share feeling that they are in a recession in the U.S. dropped, it is still 47% (Nielsen, Q4 2015).

The average U.S. household spending on food and non-alcoholic beverages has since 2005 increased from around $5.000 to $6.000 and is expected to reach approximately $7.000 in 2020, however adjusted for inflation the development is flat (See appendix 6). The trend in Australia is similar while China is seeing growth that is above inflation and expected to continue with a CAGR of 3.6% above inflation (See appendix 6). Overall, the downfall experienced in consumer spending on food products after the financial crisis is slowly getting back to previous highs in developed economies. Strong fears of recession all over the world however are dampening the momentum of the recovery, while at the same time recent developments in financial markets do their part to keep the fear of a new recession alive, none-the-less, OECD forecasts with growing spending.

4.1.2.4   Commodity prices

The prices of agricultural raw materials, such as wheat, beans, sugar and more, are directly linked with the variable cost incurred by food processing companies such as Campbell (Campbell Soup Company, 2015a), and hence with the end-consumer prices for such products. As can be seen in figure 10 (indexed at 100 in year 2001) there is a significant correlation between the price of input materials and the price of food and beverage, all in all the development in prices has been positive since 2001, the impact of the financial crisis is also clear and prices are back at 2009 levels after five years with a negative trend.

Figure 10.   Price index for Food & Beverage and Agricultural Raw Materials
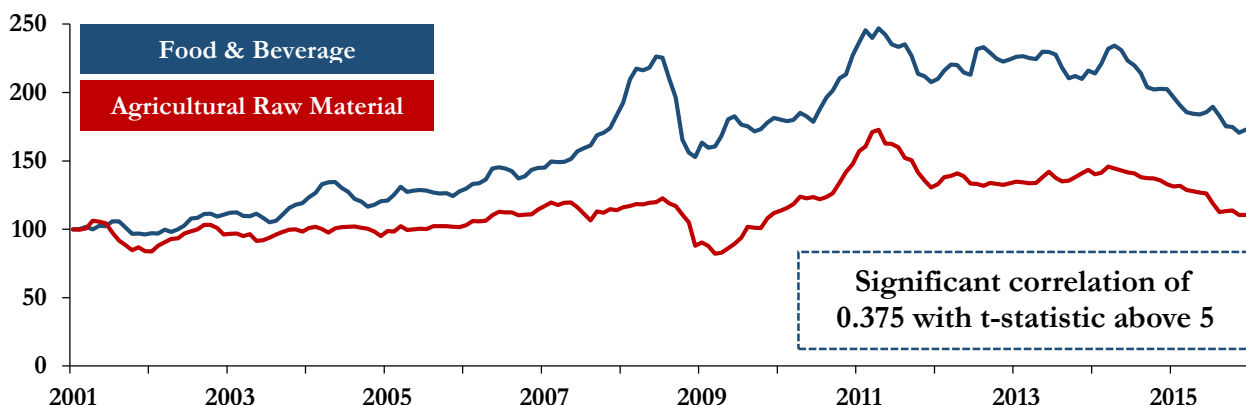
Source: Authors own compilation, based on data from (Index Mundi, 2016a; Index Mundi, 2016b)

4.1.2.5   Exchange- and Interest rate exposure

Figure 11.   Australian dollar vs. U.S. dollar
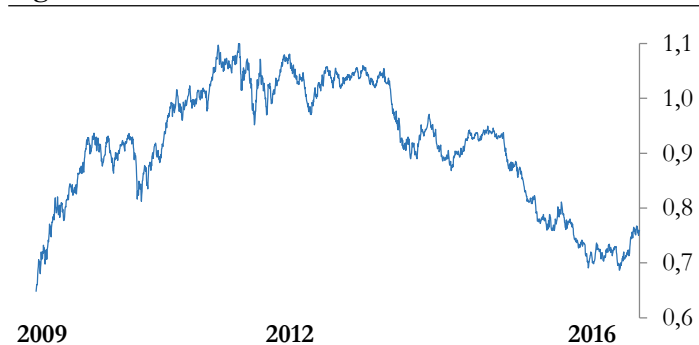
Source: Authors own compilation based on data from (Bloomberg, 2016a)

Naturally, Campbell is exposed to currency exchange rate risk, especially against the Australian dollar and a few Asian pacific currencies, such as the Renminbi and Hong Kong dollar. Looking at figure 11 it is clear that the Australian dollar has depreciated extensively against the U.S. dollar, Campbell's revenue from Australia was in 2011 $0.84 billion while in 2015 it came to $0.65 billion, a large part of the declining revenue can likely be explained by the changes to the currency market. Firms like Campbell will of course try to hedge the currency risk, but when currency moves are downward trending for five years it is impossible to stay un-affected. Transferring the cost to customers could lead to loss in volumes due to the elasticity of the products and consumer behavior.

Campbell's interest rate exposure is predominantly related to its debt portfolio which consists of approximately $2 billion in revolver facility at a base rate of 100 basis points above LIBOR and a group of issued bonds with a $2.5 billion outstanding with the most recent bonds having been issued in 2011 and 2012.

Figure 12.   12 Months LIBOR
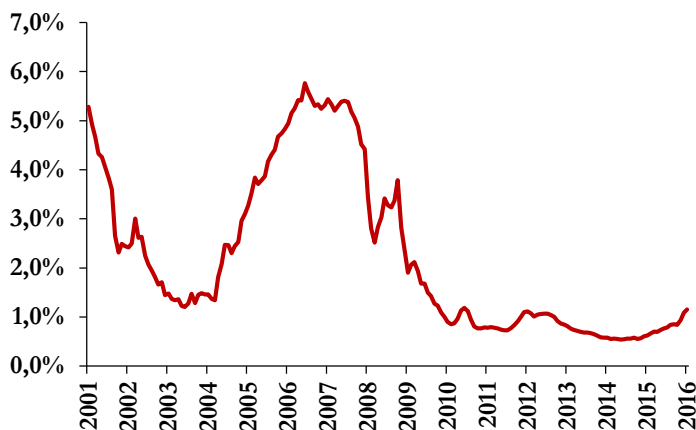
Source: Authors own compilation, based on data from (Bloomberg, 2016b)

First of all, LIBOR is a short term benchmark for at what rate banks are willing to lend each other capital. The most widely used is the three month LIBOR. In figure 12 the historical 12 month LIBOR is shown. Since the financial crisis in 2009, where LIBOR peaked at 5.5%, the LIBOR rate has declined substantially and has been around 1% since 2010. The low LIBOR is of course related to the historical low rates put forth from central banks in an effort to drive economic growth and fuel consumption. The U.S. Federal Reserve had for long suggested increasing rates, and did so at the end of 2015, but with that move looking more and more like a policy mistake for many, FED futures are not pricing in further rate hikes in 2016, so for now it seems financial markets are expecting rates to stay untouched.

4.1.2.6   Population growth in core markets

The population on earth is expected to grow to 9.7 billion according to a study by the United Nations (United Nations: Population Division, 2015). Today the population is at 7.4 billion. An important question is however, where is this growth going to happen? Will it be in markets where Campbell's is present? Focusing on Campbell's current and expected key markets one sees that they will represent very little part of the expected population growth. However, Australia's population is expected to increase by 37% and the U.S. by 20%, while China will see

Figure 13.   Expected Population in China, U.S. and Australia
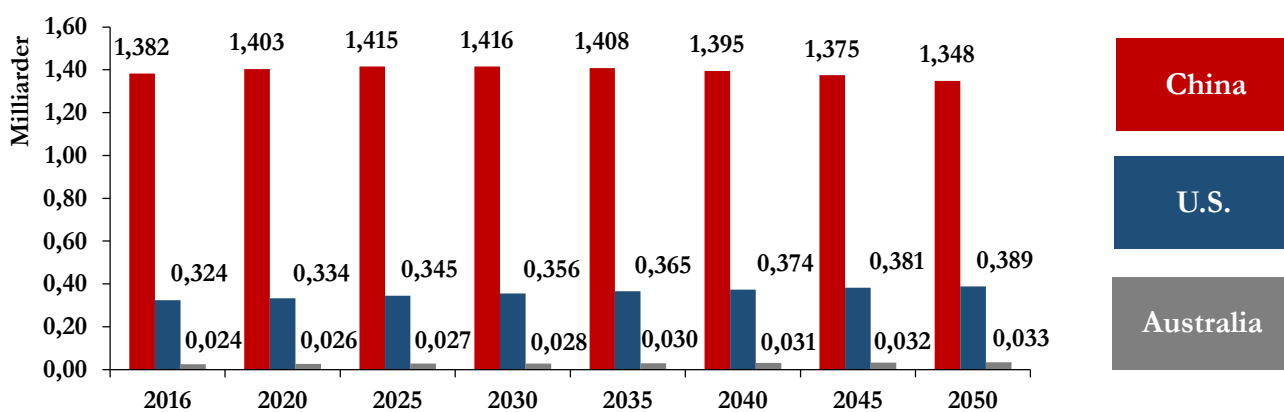
Source: Authors own compilation, based on data from (United Nations: Population Division, 2015)

a slight decrease. The high growth areas are evaluated to be India and Africa; the latter is expected to double. None are however key markets for Campbell at the moment although increased exposure to emerging markets could be expected.

4.1.2.7   Summary

The economic factors that affect Campbell are many and complex. In its core developed markets a real issue is the slow growth in GDP, disposable income and stagnant middle class. This leaves fewer growth opportunities as Campbell must steal market share in order to grow substantially. In less developed economies, the situation is almost the opposite, with the middle class and disposable income expected to grow substantially. When one looks at the interest rate this is low and could increase in the future, when is difficult to assess, it would have an effect on Campbell but higher rates would also be a sign of a more robust economy, so the net effect is difficult to assess.

4.1.3   Socio-cultural factors

4.1.3.1   Health, Environment & Socioeconomic concerns

49% of respondents to a Nielsen survey believed they are overweight and 50% are trying to lose weight (Nielsen, 2015). Out of those trying to lose weight, 57% are expanding diets to include more natural and fresh food (Nielsen, 2015). In North America, people try to eat smaller portions, while in developing markets consumers tend to use commercial trimming programs (Nielsen, 2015). Surprisingly, those seeking a reduction in weight are eating fewer fats and sugars.

When it comes to the foods consumers eat they are going back to basics, they are seeking fresh, natural and transparent foods (Nielsen, 2015). Around 40% of respondents to Nielsen's survey are concerned about the widespread use of genetically modified organisms, artificial flavors and colors. Younger generations and consumers in emerging markets are willing to even pay a premium for healthier and more transparent food, and more so if the food is sourced organically (Nielsen, 2015).

The market for healthy nutrition grew in 2012 by more than $10 billion in China, while the U.S. market grew by close to $3 billion, the growth rate globally is around 7% with the total global market expected to reach $1 trillion in 2017 (Forbes, 2015). The trend within this fast growing segment is expected to continue and it is therefore very important for food manufacturers to not fall behind on this change in consumer behavior. Campbell, amongst many of its competitors, is launching new products that tap into this new growing market (Forbes, 2015), but no matter how persuasive the above research appears, consumers are also increasing demand for indulgent foods, this points to a disconnect between what consumers want to eat and actually eat, in other words consumers want the whole specter (Nielsen, 2015).

Following this trend Campbell acquired Plum organics in 2013 which is a producer of healthy and organic foods for children (Campbell Soup Company, 2013). In 2015 they continued their move to establish presence in the packaged fresh food segment by acquiring Garden Fresh Gourmet, which is primarily known for dips (such as

salsa, hummus etc.) but also holds an image as a sustainable, transparent and fresh foods producer (Campbell Soup Company, 2015b). Campbell is clearly listening to its consumers and acting accordingly.

4.1.3.2   Time Squeeze

Consumers are also looking for food that is functional with North American consumers increasingly looking to opt for meals that are easy to prepare (Nielsen, 2014). Today, consumers are more inclined to swap meals for snacks and grab something on the go. The amount of trips to the grocery store has dropped 16 on average per year since 2001, indicating that consumers are getting increasingly more food outside of the retailers (Nielsen, 2014). Households have increasingly allocated more of their food spending to eating-out. Approximately 90% of Americans purchase convenience food, where 61% state that "reduced time" and "less effort" are primary reasons for doing so (Harris & Shiptsova, 2007). It seems that consumers on one hand want to spend less time preparing food, while at the same time eating more fresh and natural foods. This is in return driving a larger need for high quality ready prepared meals. Campbell does this by continuously improving and expanding its products thereby creating an easy alternative to dining-out or other substitutable products. Campbell also invests in an innovation center, with a purpose to research and show consumers how Campbell's products can be used to make semi home cooked dishes. It's a mixed strategy including both ready meals and more modular products, but it's a clear effort to meet consumers demanding both convenience and natural fresh foods.

4.1.3.3   Summary

Health continuous to be an important factor for consumers who are demanding more fresh and natural foods, they want the ingredients to be transparent, but they are also still looking for functionality. An increasing amount of people buy food on the go, and as a result grocery store visits have been decreasing since 2001. Responding to this trend Campbell has acquired several smaller companies, such as Plum Organics and Garden Fresh Gourmet and hope to build on these to gain a leading place in this growing segment.

4.1.4   Technological & Environmental factors

The technological and environmental development in the food manufacturing industry is linked. The increased consumer focus on sustainability and organic products means that food manufacturers have to adapt, and that includes changes to how one produces and sources raw materials. A key question for food processing companies is "Can we utilize our raw materials more effectively?" it is a technological challenge but with environmental effects and leads to more sustainable production methods.

4.1.4.1   Sustainable production

The UN Brundtland commission defined sustainable development as "meeting the needs of the business without compromising the ability of future generations to meet their own needs" (United Nations, 1987). With the global population expected to grow and the consumption of food set to increase, global resources are pressured and at risk of not developing sustainably. Food processing companies play an incremental role as they develop new ways to turn raw materials into finished products for the end-consumers. They are pressured from retailers who demand more environmental products because they see end-consumer demanding products that are manufactured in an

environmentally friendly matter (Sellahewa & Martindale, 2010). According to data from the European Commission on Environment up to 50% of produced food is wasted, the distribution between what is lost in the supply chain and by end-consumers not consuming all of what they purchase is not available (European Commission, 2014). Real sustainability is by some dependent on that consumers consume less, that would mean lower volumes for food processing companies and retailers (Sellahewa & Martindale, 2010). Campbell is attempting to do their part, like many companies today, they are actively working on diminishing their carbon footprint and have a goal to reduce this with 50% by 2020. To achieve that goal, Campbell aims at reducing water usage, use less packaging material and only use materials that are recyclable, together with other supporting goals (Campbell Soup Company, 2016a).

4.1.4.2 E-commerce

Although e-commerce has become common amongst consumers of a wide variety of products, the e-commerce revolution within the grocery industry has been slow to manifest, mainly due to issues with logistics and reluctance from consumers due to convenience, using e-commerce, grocery shopping stops being something people do on their way home from work, to something they have to sit down and plan – basically becoming more complicated (Smith, 2015). However, the e-commerce of food retail is something Amazon, Ebay and Google have developed services for, but only 15% of U.S. adults say they have purchased general food items online (Smith, 2015). Consumers are concerned about not seeing the products before purchase, this is especially a problem for fresh food, leading to concerns about quality. According to analysis my McKinsey & Company e-grocery shopping is expected to grow, but successful models have proven to be located in densely populated areas, so their assessment is that e-grocery will succeed some places but not all (Desai, Potia, & Salsberg, 2012, p. 5). A larger e-grocery sector, could push further price competition as the cost of running such a business model presumably is lower than physical retail once scale is achieved, first of, such a price competition would likely be between e-grocery and grocery chains.

4.1.4.3 Social media marketing

Through social media and new communications channels engaging with consumers have never been easier. Companies and their brands have accounts on Twitter, Facebook etc. and engage actively with their end consumers. Basically, new innovations and products, marketing initiatives can be tested quickly or social media can be used to let consumers generate ideas and vote on them themselves. In essence bringing part of a process that used to occur within the confinement of a company to the open (Desai, Potia, & Salsberg, 2012, p. 6).

4.1.4.4   Summary

Assessing the effect from technological and environmental factors is difficult. None the less, we live in times where technology is progressing at an increasingly faster rate, and at the same time there is a strong focus on sustainability and accessibility. It is the perception of the authors, that when it comes to the packaged foods industry, the effect is medium. Sustainable production is always in focus because, getting more from less can lead to higher margins and market share. The effect of social media and e-commerce is something that is believed to have a higher impact on the retail industry than the actual producers of goods, at least initially.

4.1.5   Total Impact of Macroeconomic factors

Figure 14.   PESTEL (Overall assessment)
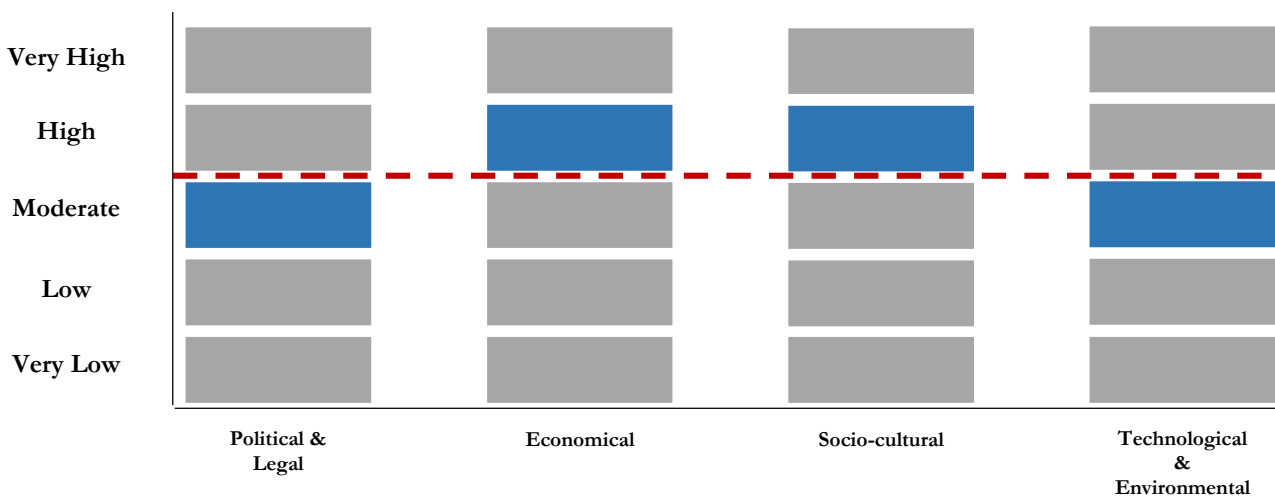
Source: Authors own compilation

4.2 PORTER'S FIVE FORCES

Michael Porter argued in 1979 that five factors shape industry attractiveness. His framework, popularly known as Porters Five Forces, is used to identify how economic value is created by an industry and divides this effect across five pillars that move strategy. Porter's five forces are directly linked to the income statements and balance sheet of industry participants because they affect pricing, costs and the required investment needed in order to compete. Thus, by analyzing the five forces one can understands the foundational factors that affect existing profitability and a basis for estimating future earnings. Each force is rated on a scale of five, with lowest rating indicating "very low" and the highest rating indicating "very high". A lower rating implies that there is a greater potential for value creation and higher profitability in the industry, the opposite is the case for a high rating.

Campbell produce a wide range of food products and hold a vast brand portfolio. Thus, they serve different markets. The purpose of this section is to understand how economic value is created in the food processing industry. In this context it is the view of the authors that Campbell be viewed as a whole. Specific product categories, brands and geographic segments will however be discussed when consider necessary.

4.2.1 Bargaining Power of Supplier

Several factors affect the power of suppliers, such as the differentiability of its product, the switching cost, the concentration of suppliers and the degree of reliance suppliers hold to the food manufacturing industry (Porter, 1979). Campbell's suppliers can be split in four categories: contract manufacturers, suppliers of raw materials and packaging materials, suppliers of manufacturing equipment & machinery and minority suppliers.

4.2.1.1 Contract Manufacturers

There are two main categories of contract managers for a food processing companies. Companies may outsource manufacturing in order to enter new markets, they can do this by setting up joint-ventures and then grant such a joint-venture a contract to manufacture their products in the given region. The bargaining power in such cases is heavily dependent on the shareholding and the on-site control of production. Campbell has entered into two joint-ventures, one in China and one in Malaysia, and holds majority shareholding in both. The risk therefore becomes the joint-ventures ability to manufacture in accordance with Campbell's quality standards. With Campbell both having administrative offices in the regions and majority shareholding, the risk with such joint-ventures is viewed as low.

R&D contract manufactures are highly used by the food manufacturing industry, mostly by companies that do not have or have stretched R&D resources in-house and companies in need of complementary skillset in relation to new product development. It is difficult to evaluate the use of R&D contract manufacturers for Campbell. The company has a seemingly strong R&D department. However, suppliers of such a service are highly skillful, likely differentiated according to specialties and because of this authors view such suppliers as having strong bargaining power.

4.2.1.2 Suppliers of Raw Materials and Packaging Materials

Food manufacturing companies rely on raw materials for their finished consumer goods. The price of such materials thereby has the potential to highly affect the profitability making the bargaining power a crucial factor for this industry. The assortment of raw materials needed is large, and spans across agricultural commodities, packaging materials and various chemicals. The agricultural commodities are undifferentiated and represent large industries. The suppliers range from smaller farms to large companies. The products are produced across many parts of the world with pricing and production volume information at full disclosure, this makes bargaining power low. Take the market for wheat and soybeans as an example; wheat represents a $30 billion[2] market while soybeans represent a market of more than $140 billion[3]. During the last five years' prices for agricultural raw materials has been deteriorating. Abdolreza Abbassian, a senior economist at the FAO[4] said that "Abundant supplies in the face of a timid world demand and an appreciating dollar are the main reason for the general weakness that dominated food prices in 2015," This indicates low supplier power. However, in a world facing the consequences of climate change, supply may become scarcer due to various natural conditions.

The environment for packaging material suppliers is more difficult to evaluate. Look at the manufacturers of cans, which would likely be a large supplier for Campbell, this is an industry that produces 124 billion of cans for the U.S. alone. Food is generally stored in steel cans while beverages are stored in aluminum cans. The CMI[5] has four members that produce steel cans and only one member which supplies steel, U.S. Steel. Domestically it appears that this is a consolidated market with large players, Campbell could of course choose to deliver its products in something else such as cardboard packaging or plastic, but their cans are iconic so the switching cost is high. This makes the companies dependent on each other. Presumably the price of steel plays a big role as well. Although the CMI only has one steel producer as a member in the U.S. the fact is that steel is traded worldwide, prices are transparent and there are many suppliers internationally. With Campbell having most of its production in the U.S. they are likely dependent on the few U.S. manufacturers of cans diminishing their bargaining power.

4.2.1.3 Small minority suppliers

One thing Campbell is focusing more on is increasing supplier diversity. What that means is that Campbell is increasingly buying ingredients and packaging solutions from businesses run by minorities, women, veterans or LGBT[6]. Campbell claims that these suppliers are delivering high quality at competitive prices and is enabling Campbell to be more agile in response to changing business needs such as costs, timing, quality and quantity (Campbell's Soup Company, 2016). Campbell is increasingly shifting to suppliers adhering to their CSR strategy, increasing the spending to this segment by 8% p.a. In 2014 this segment accounted for approximately $160 million of Campbell's supplier spending. It is difficult to say how big a share this segment represents but with Campbell

---

[2] Based on numbers from the Food and Agricultural Organization, a United Nations organization
[3] Based on numbers from the Food and Agricultural Organization, a United Nations organization
[4] Food and Agricultural Organization
[5] Can Manufacturers Institute
[6] Lesbians, Bisexuals, Gays and Transsexuals

having COGS[7] around $5 billion it is safe to assume it is a relatively small percentage. None the less, it appears Campbell has found a supplier segment that gives them more bargaining power. Not because the suppliers represent minorities, but because they likely are smaller in size and local in regards to Campbell's production facilities. For these suppliers Campbell may represent a very large and secure customer, thereby being able to negotiate better prices and enforce stringer requirements to quality, production method etc.

4.2.1.4   Suppliers of Manufacturing Equipment & Machinery

Looking at the suppliers of packaging materials and solutions the competition is fierce, giving companies like Campbell substantial bargaining power. The climate for manufacturers of packaging machinery is highly fragmented in the U.S. with strong competition from Europe. U.S. manufacturers hold less than 40% of the market (United States of America Department of Commerce, 2009). In 2002 the FPSA[8] believed there were 2,500 suppliers, while the U.S. Bureau of the Census reported 553, which clearly indicates a large pool of smaller suppliers operating in this market.

4.2.1.5   Campbell's ability to shift suppliers

As one of few food processing companies, Campbell is pushing for more transparency in regards to its ingredients and the use of genetically modified organisms and has drawn its support to lobbying groups working against transparency. Campbell is holding its suppliers to strict quality requirements. This could have a limiting effect on Campbell's ability to shift suppliers, mainly due to two reasons.

- **More resources must be spent on ensuring suppliers adhere to quality standards.**
- **Quality requirements leave Campbell with a smaller pool of potential suppliers.**

The sourcing of various materials is subject to several risks, such as changes in crop size, cattle cycles, disease, market speculation, drought, currency fluctuations and more. Campbell uses a combination of both short- and long-term contracts with its suppliers, for Campbell this is important because they are highly dependent on the ability to ensure enough materials for production. Being "locked up" in too large a fraction of long-term contracts reduces their ability to quickly respond to a changing business environment, and relies heavily on their ability to properly budget demand and have strong control of its supply chain.

4.2.1.6   Summary

Due to the lack of uniqueness of these materials and ingredients in the current market suppliers are viewed as having a low bargaining power. It would be easy for Campbell to shift suppliers in the current market conditions.

---

[7] Cost of Goods Sold
[8] Food Processing Suppliers Association

4.2.2   Bargaining Power of Buyers

The direct buyers of products from the food manufacturing industry are commercial retailers. In the western world food manufacturers face few retailers who in return have national and international distribution networks. Retailers are thus an intermediary between Campbell's and their end-consumers, they have the ability to affect end-consumer behavior because they control the place of purchase but also need to take into account the demand from end-consumers. Another alarming threat is that of backward integration by retailers who are establishing private label's, thereby becoming a direct competitor to its suppliers, the food manufacturers.

4.2.2.1   High Concentration leads to High Pressure on Prices

A few number of retail chains account for the majority of consumer products sold in the US, and similar centralization of distribution are seen in most western countries, with the trend also gaining a presence in emerging markets. The development and centralization of power seen within the grocery retailer industry since the sixties, have left the consumer product manufacturers weakened when it comes to negotiating terms and prices. This leaves Campbell with an eminent need to always be present in, and on good terms with, the larger retailer chains in order to get their products moved. On the other hand, grocery retailers need to offer a wide assortment, and have to include high value brands that end-consumers demand. Placing on the shelves and psychology affects consumer behavior, and thus plays an important role in the negotiations between manufacturers and retailers. In addition to price as a main negotiation factor, the fact that retailers buy such large quantities allows them to press other aspects, such as joint marketing efforts, bonuses, discounts and other supply condition. In the U.S. several food manufacturers have had joint marketing efforts with Wal-Mart. Lately, however, Wal-Mart has lost market share to Kroger and Costco, as a response Wal-Mart is pulling out of joint marketing and demanding its suppliers to use the savings on price cuts (Ziobro & Ng, 2015). This is a great example of how, to some extent, the retailers set "the-rules-of-game" and most producers of branded consumer goods have to follow. Packaged food represents a large share of retailers cost structure and they are therefore naturally price sensitive (Porter, 1979). With a wide array of food manufacturers to choose from they are inclined to "shop-around" for better prices, on the other hand retailers become more attractive the more diverse the product offering is (Reilly, 1931). With most of Campbell's sales occurring in the U.S. and Australia (>90%), where discount stores represent the largest buyers, they are constantly being strained on prices.

4.2.2.2   Real Threat of Backward Integration

With the rise of Private Labels (PL), which emerged on a large scale in the sixties, companies like Campbell are not only competing with name brand peers, but from the retailer's own PL. This puts food manufacturers in a situation where their customers are integrating backwards. With this, food manufacturers main customers also become large competitors, this clearly strengthens the power of retailers. Today PL's account for close to 17.5% of total sales in U.S. supermarkets, this has been relatively stable since 2011. In Campbell's second largest market PL's have grown substantially the last few years and represent 21% of the market. In emerging economies end-consumers highly value name brands, in Asia PL's represent less than 5% (Nielsen, 2014). In Europe, however, PL's have market shares ranging from 20% to 45%. If the trend in Europe is transferable to other regions, then

name brand food manufacturers face a significant risk from backward integration. The growth in PL's is mainly due to retailer's actively pushing their own PL's, for which they often enjoy significant higher margins and control over pricing strategies. PL's are often priced substantially lower than name brands and enjoy prime product placement. By engaging in the manufacturing process, retailers gain information regarding the manufacturing of food products, which yields asymmetric information going into the negotiations. In summary, the PL's leave retailers with lower switching costs, and with an incentive to favor their own products.

4.2.2.3 Product Differentiation and Switching Costs
A strong brand and the ability to produce large quantities are essential in order to gain shelf space and access to the distribution network of retail chain giants like Wal-Mart. A brand that is differentiated from its peers, and sought after by end-consumers, will also be in demand from retailers. This gives food manufacturers of name brand products some strength in negotiations. The effect is that companies like Campbell are forced to become cost effective while also stay innovative. As a result, retailers become more diverse and end-consumers get more value-for-money. Campbell advertises directly to end-consumers and brand value is high for several of their products, this creates pull from end-consumers and makes it difficult for retailers to switch supplier (Porter, 1979).

4.2.2.4 Summary
Manufacturers of strong brands like Campbell's enjoy customer loyalty, which makes retailers, to some extent, dependent on offering their products. The centralization of power however, created and controlled by a limited number of retail chains, and the increasing presence of PL's has strengthened the buyer power of retailers. Retailers therefore hold very high bargaining power over its suppliers.

The threat of substitution is generally high. Retailers are not likely to substitute Campbell for other consumer products as they want to offer variety, the substitution threat lies in end-consumer behavior which then affects retailer's decision making. Today, end-consumers also have a wide variety of goods available to them at food retailers. They can choose to buy ready meals, cook themselves or dine-out.

4.2.3.1   Cooking & Dining – the importance of convenience

The move towards ready foods and fast food solutions has been going on for decades (Morrison, Buzby, & Wells, 2010). Households are presumably cooking less from scratch increasing the consumption of ready-meals, take-out and dining (see figure 15). Looking at data from the U.S. we clearly see that spending on eating & drinking

Figure 15.   U.S. Food expenditure trend
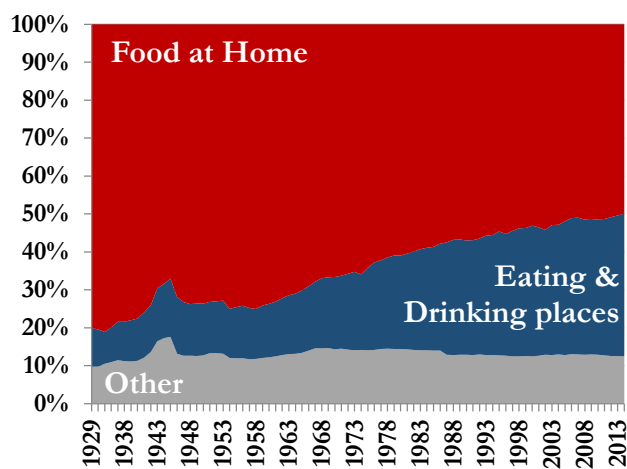
Source: Authors own compilation, based on data from (United States Department of Aricultural Economic Research Service, 2016)

out is growing at a faster pace than other segments starting from the sixties. Many different factors play a role in this development, but the foundational reason is a need to make eating habits more convenient for end-consumers who experience having less time to prepare food themselves. Restaurants, cafés, take-away providers etc. therefore play an increasing role in food consumption and is a real threat for food manufacturers. Food manufacturers have exploited the trend by increasing the variety of quick-to-prepare products. Campbell's products are centered on high quality and convenience giving them a strong position compared to fresh produce. Whether the losing segment is fresh produce alone, or if it also includes

packaged food is not clear, but it is assumed that reduced demand for fresh produce is the lead factor in this development. A reasonable assumption is that the average household cannot afford to dine out every day, thereby setting a substitution cap, if you may.

4.2.3.2   End-consumers driven by value offering [Private Label]

Consumers are increasingly shifting from name brand products to private labels which are substantially cheaper. This trend has shown to be prominent in developed countries, especially after the financial crisis in 2008. However, both U.S. and the Australian markets are less penetrated by private labels then Europe, and the same goes for most Asian markets (see section 4.2.2.2.). The threat of PL's eating into the market is real. Companies like Campbell's are creating a market for their products in the developing world, and are at risk of its retailers "pulling-the-rug" once a market is established.

4.2.3.3 Transparency as a differentiator

Consumers may want more transparency in regards to what they eat. A recent study by the Hartman Group shows that consumers are increasingly concerned about the safety standards of food and beverage products (Forbes & The Hartman Group, 2015). Consumers expect companies to be transparent and this is a real factor when consumers are choosing what to eat. This is a general issue across the food industry, and could lead to consumers choosing more transparent food products and/or services. Campbell is moving towards more transparency and has a clear focus on healthy eating that directly ties to their top-level strategy so this risk is viewed as low.

4.2.3.4 Commercial retailers

In general retailers will want to offer their customer a wide variety of brands and products, the risk of Campbell being substituted entirely is seemingly low. However, the quantity purchased by retailers is highly affected by both rival products and substitutes. If substitute products are able to offer better conditions, such as sales, margins, turnover time etc., retailers will want to have a higher amount of those products in store, in effect reducing availability and sales of Campbell's products. This is largely affected by end-consumer behavior but also by the product characteristics of competing substitutes. Retailers can try to affect the buying pattern with product placement or discounts but will mainly do this to push products that are commodity-driven and with higher sales and margins. The issue therefore becomes not, whether or not Campbell is an accessible product at the retailers, but whether it is getting satisfactory product placement in the stores and it ensures this by providing retailers with good margins and a valued brand demanded by end-consumers.

4.2.3.5 Summary

The substitution risk is high and the market has two battlefronts: the brand value with end-consumers and Campbell's ability to offer better margins to retailers compared to substitutable products. The first sets the tone for what consumers will want, the second whether retailers will want to focus extra on selling Campbell products as opposed to other offerings. The latter is especially worrying with the manifestation of PL's.

4.2.4   New Entrants

Gaining a loyal customer base within the consumer product industry is hard, so new competition primarily comes in the form of already existing participants launching new products. Gaining access to large retailer's distribution networks demands the ability to produce large quantities, which again calls for large capital requirements.

4.2.4.1   Limited Access to Large Distribution Channels

The retailers have standing relationship with the major producers of food and consumer goods. Retailers would only be able to introduce new products by reducing the amount of products it holds from its existing suppliers. Many of which have a bargaining power because they hold large brand portfolios, which retailers are dependent on offering. New entrants are unlikely to be able to compete with that, although brand value is not dependent on size, they would need a highly established brand for retailers to introduce their product. Access to the major distribution channels therefore becomes a major entry barrier.

4.2.4.2   Capital & High Volumes Needed to Compete

If entrants are able to gain access to the retail chains and their distribution networks, they will face a second issue. Retail chains will usually only procure goods from suppliers able to deliver to their whole distribution. In countries such as the U.S. and Australia that requires entrants to produce large volumes and have a highly efficient supply chain, if they are to avoid being squeezed out of the market. As discussed earlier, retailers are pushing the margins of food manufacturers, if new entrants are not able to be cost effective they will lose market share to those who are.

New products with an exclusive brand perception and focus on high quality continuously find their way to local supermarkets. These brands however, only possess a limited threat to companies like Campbell due to their limited ability to manufacture large quantities, thereby gaining economies of scale. The capital requirements needed to research and develop new products and set up production facilities, along with gaining the experience and expertise needed in order to manufacture products with competitive margins forms the main entry barriers stopping new competitors from entering the industry.

4.2.4.3   Eaten by Conglomerates

Major players in the consumer products industry have shown to be highly successful at M&A, generating higher returns on average than other sectors (Bain, 2015). Those food manufacturers that are able to enter the market are therefore often acquired by some of the industry's larger players such as Nestle, Kellogg, Heinz Kraft, etc. These companies gain leverage against retailers by having a wide brand portfolio because this makes retailers more dependent. With such conglomerates producing a wide variety of goods, and having a large corporate infrastructure in place, there may be several cost efficiencies available through M&A activity. Those successful of entering this market are therefore likely to be acquired.

4.2.4.4   Private Labels Gaining Market Share

By having immediate access to a distribution network, and with a business model based on copying already successful products, PL's main challenge is being able to produce at lower costs than name brands. While the

qualities of PL's are highly debated, the fact is that most PL's have come a long way in regards to quality since first introduced. The majority of consumers have also proven willing to switch from original products to lower cost PL's, especially within certain product groups. It is therefore safe to assume that retailers without PL's in time will follow the steps of market leaders and launch their own PL's.

4.2.4.5 Summary

There is little concern of new name brand competitors entering the consumer product industry, mainly due to the difficulties of establishing a solid brand with loyal customers, and due to the large capital requirements of setting up production facilities. The concern of an increased presence of PL's is however, eminent. While current PL's are gaining a larger markets share, year-on-year, there is also the threat of new retailers launching their own PL's.

4.2.5 Competitive Rivalry

The degree of competition within an industry is perceived as high if there are many competitors of equal size, if market is slow moving and participants are competing for market share, or if there are high exit barriers causing an oversupply. This fits well for both developed and developing markets in the packaged food industry, but what firms are competing for differs. The developed markets can be characterized as saturated, while developing markets are seeing double digit growth. This means that the competitive dynamics differ across these segments.

4.2.5.1 Developed Markets

In the western world the packaged food industry is highly competitive with most firms holding a market share below 5%, this is evident in both of Campbell's main markets: U.S. (1.7%) and Australia (3.1%) (Passport, 2016a). In addition, the U.S. market is slow moving growing by a CAGR of 2.3%, in Australia this is substantially higher with 4.3% (Passport, 2016b; Passport, 2016c). The markets are characterized my many brands and the end-consumer has a low switching cost. Hence there is a scarcity of end-consumers and firms compete intensely for market share.

4.2.5.2 Developing Markets

The Asia-Pacific region has been growing 4.4% while China has experienced a CAGR of 11.5% (Passport, 2016d; Passport, 2016e). Competition is still high, but instead of firms aiming at taking market share from each other, they aim at grabbing a better hold of market growth. The markets are still characterized by many brands and even more companies, as international companies have to compete with local and regional food manufacturers. The focus for companies like Campbell's is in large to gain brand value and establish brand loyalty in the regions. They are both competing for the current market, but more importantly is it to capture market growth as these markets are from saturated.

4.2.5.3 Summary

The competition amongst rivaling firms is high. This is especially the case in the developed markets where firms compete for market share. In the developing economies firms are competing for growth but the market includes both international and regional firms, with the latter holding majority of the market. In both cases, Campbell need to compete on cost and on brand value, the latter is important to establish itself in developing markets.

4.2.6   Summary of the Five Competitive Forces

The overall assessment of the five forces is that these have a high impact on the food packaging industry. The most dominant force is the relationship with retail customers as these hold a very high bargaining power and the trend of PL's and backward integration is expected to continue and also spread to emerging economies. Also relevant is the relationship with end-consumers, which is important if food manufacturers are to maintain and improve their bargaining power with retailers. High margins, a valued brand portfolio and a growing portfolio appear to be essential for success in the industry, Campbell's hold the two first, but this only makes them able to maintain their position. Competition amongst rivals is in Campbell's most prominent markets, based on gaining market share, which is done more successfully by other firms who have focused on inorganic growth through M&A. As a response, Campbell's is seeking to faster growing markets, but markets here are equally competitive and the Campbell's brand may not hold the same pedigree amongst end-consumers. The least dominant force is the supplier relationship. Suppliers are themselves operating in a highly competitive industry with mostly undifferentiated products with low switching costs. The situation may change however, with growing population and limited production capacity that is also affected a wide array of risks that could reduce the industry's ability to meet market demand, thereby shifting the power balance with suppliers.

Figure 16.   Porters Five Forces (Overall assessment)
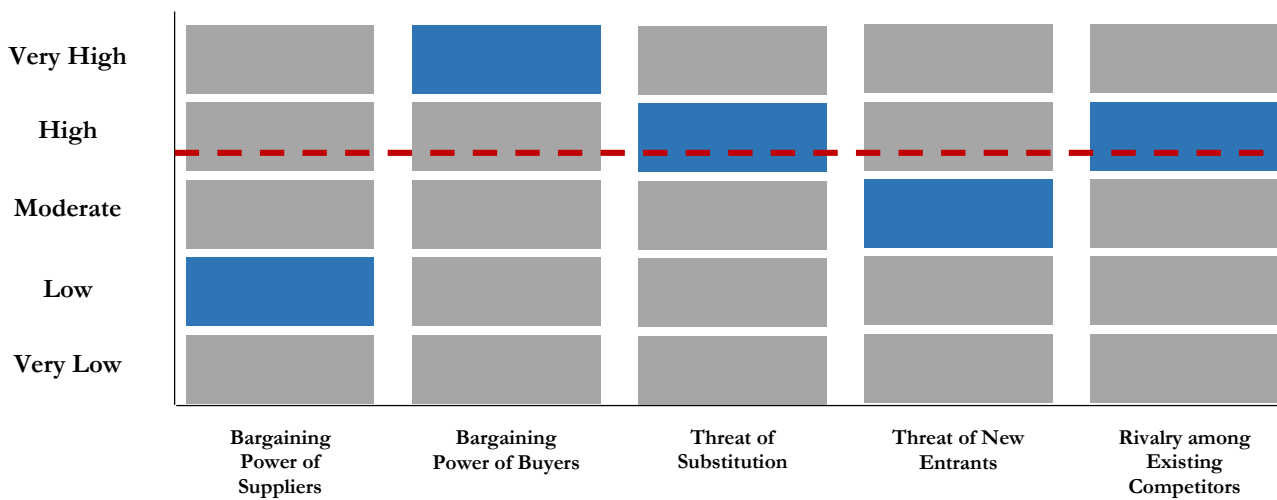
Source: Authors own compilation

4.3 VRIO ANALYSIS

In 2006, Barney and Hesterly revised the VRIN model to a VRIO framework. The VRIN model was initially developed as an empirical indicator as to whether a resource would be a long-term competitive advantage. The models derive their logic from the resource based view (RBV), in comparison, the previous analysis tools used in this paper analyze the environment and industry. According to RBV theory resources must be heterogeneous and in-mobile in order to transform short-term competitive advantage into sustained competitive advantage (Barney, Firm Resources and Sustained Competitive Advantage, 1991, pp. 105-106). With the revision of VRIN to VRIO Barney and Hesterly defined four conditions which have to be met in order to establish sustained competitive advantage: *Valuable*, *Rare*, *In-imitable* and *Organization*.

The authors classify resources as assets owned by the firm, information and knowledge obtained by the firm, organizational processes, cultural characteristics, company attributes etc. Furthermore, the authors segment firm resources in three categories: tangibles, intangibles and capabilities. Barney defines sustained competitive advantage as: "*A firm is said to have sustained competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy.*" (Barney, Firm Resources and Sustained Competitive Advantage, 1991, p. 102).

Tangible resources consists of financial, physical and technological resources such as cash holding, production facilities & equipment, current holding of production materials and other assets depicted in Campbell's balance sheet. **Intangible resources** include resources such as human capital, brand value & reputation and ability to innovate. In the case of Campbell's this could be consumer insight which leads to strong brand value, ability to successfully create and launch new innovative products, skilled at M&A activity and a strong managerial team. Finally, a company's **organizational resources** relate to its capacity and competence in combining tangible and intangible resources in order to achieve desired results. Although the full range of resources and capabilities of

Figure 17. VRIO model

Resource Definitions	Valuable	Rare	In-imitable	Organization
Tangible / Intangible / Capabilities	A resource enables a firm to create value by outperforming competitors or diminish effect of firm weakness	In order to be a valuable resource it must be a rare resource.	If competitors are not able to duplicate valuable resources, then the advantage can be sustained within the firm.	The firm must be able and ready to exploit its valuable resources in order to establish sustained competitive advantage.

Source: Authors own compilation, based on (Barney & Hesterly, Strategic Management and Competitive Advantage, 2006)

Campbell's have been evaluated, the analysis only constitutes the most relevant. Furthermore, financial resources will be covered in more detail in the financial analysis.

4.3.1.1   Consumer Insight

Campbell's portfolio of products is as mentioned large, but it is only within Soup and Biscuits that the company holds market leader positions in various geographies. The market shares are especially high within the soup segment with more than 40% of the U.S. soup market and in Hong Kong with almost 90%. In Australia Campbell is a market leader, but the market is characterized by three even sized competitors, all with a market share around 20%, in comparison Campbell hold 40% of the Australian biscuit market and is almost eight times as large as its closest competitors (Passport, 2016a). Achieving market leadership is in large due to better consumer insights, if a company is able to invest in R&D and marketing they can turn their consumer insight and understanding of local markets into great products. Through its positions in especially the soup market Campbell has shown to be able to do just that, a capability that is highly valuable in the branded consumer goods industry. Also, the position of a strong brand in one market may be directly leveraged into strong footholds or even market leadership in other categories or niche products within the segments such as new packaging or tastes, in other words, brand loyalty in one segment may also be exploited by new ventures.

The dominance of Campbell in its various markets, both in terms of products and geographies, varies a lot. The following analysis utilizes a relative market share (RMS) analysis based on the work by Vishwanath and Mark (Vishwanath & Mark, 1997) and on the work of Bruce Henderson (Henderson, 1970). The authors find that besides the soup and the biscuit markets, Campbell holds a portfolio of products that hold small market shares and see slow growth, some of its newer segments, such as baby food is seeing high growth.

The "premium" degree: Research by Vishwanath indicates that using RMS and the degree of premium brands in a market yields an understanding for which strategy to employ in each segment. They find that companies that hold a RMS of more than one and who operate in a market where more than 60% is constituted by premium and high-end products incur significantly higher return on sales than other combinations. In figure 18 one can see that Campbell holds such a position in the U.S. soup market but for the rest of its U.S. operations it holds a low RMS. Campbell's relative market share within the soup segment is 2.96, while the other categories hold RMS between 0.02 and 0.5. According to Vishwanath firms in this position can maintain healthy profits for long periods but are vulnerable to pricing-moves by the market-leader.

Figure 18.   Degree of "Premium" and Campbell's market position in U.S. market
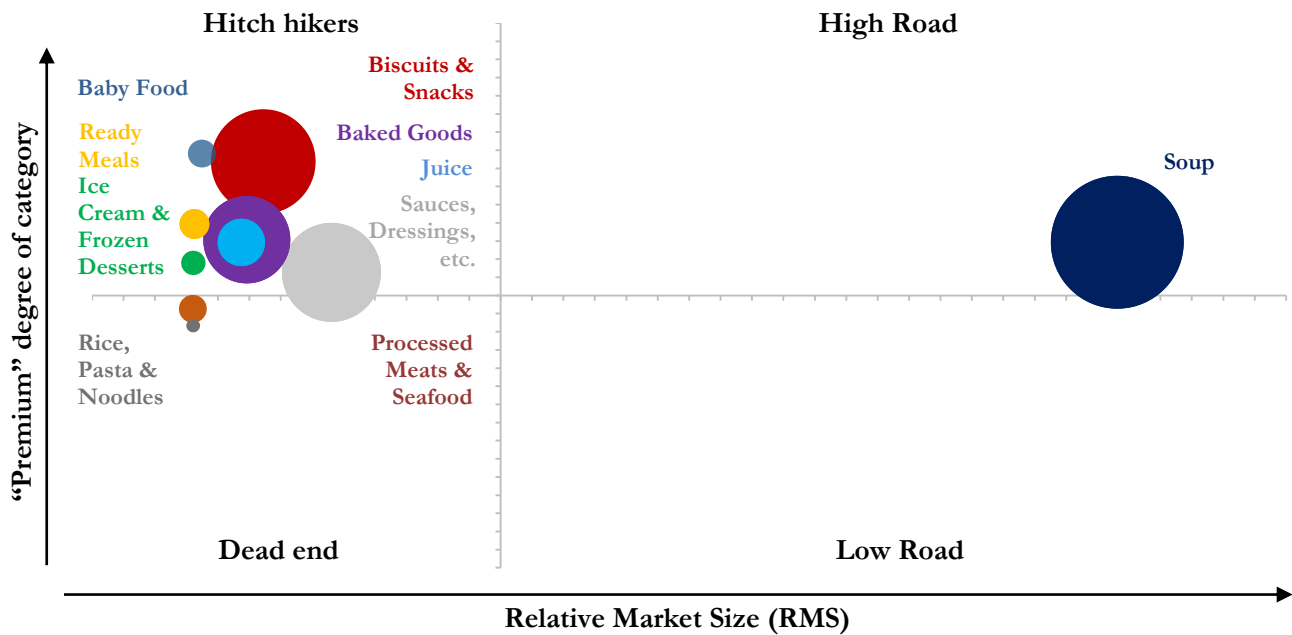
Research suggests that focus should be on innovation together with niche marketing, thereby both attracting and keeping a narrow base of loyal customers (Vishwanath & Mark, 1997). The rice, pasta & noodle segment together with processed meats & seafood operate in a market with a larger fraction of low-price and private label products. According to Vishwanath firms in this position are rarely profitable and they are in a difficult position because they either have to gain market share by starting a price war or they have to re-brand themselves as premium and change the nature of the segment. In appendix 5 it is shown that the position is similar for Campbell's Australian market, but here they also hold market leadership in the Biscuits & Snacks segment. In other segments, their operations are mostly attractive in terms of "premiumness" and historically such segments have shown to be profitable.

There is no doubt that Campbell holds an extremely important position in the soup segment. Since its inceptions it has built up a highly valued brand in the U.S. which it has managed to leverage geographically and into other segments such as Biscuits, Snacks, Baked Goods, Sauces, Dressings etc. The same has however also been the case from other international players such as Kellogg's, General Mills, Unilever etc. who have branched out to other segments using their strong brands in another category. Holding a strong position in one segment in this market requires strong consumer insight and the ability to act on it. That is something Campbell has shown to be very good at, from tailoring its product line to geographical segments by innovating and expanding its product line to adhering to the changing consumer behavior in each region. That is something that sets them apart from other producers of soup, because they simple do not have the scale to cater to such a broad consumer group. It is the authors view that the position in Soup is valuable, as is any market leadership position in the consumer packaged

goods industry because there can only be one, and the effects are, to mention a few, scale production and more negotiation power with retailers which is difficult to replicate unless you gain market leadership.

In the soup segment the position held by Campbell is so strong that it is the view of the authors that it is unlikely that competitors will, in the short-term, be able to acquire the same degree of consumer insight. Soup is very different across the world and Campbell is successfully selling its soup to all parts of the world, soup that is different from region to region. Campbell invented condensed soup as we know it in 1897 and as a consequence had the first mover advantage in the U.S, something that increases the cost of imitation (Barney, Firm Resources and Sustained Competitive Advantage, 1991, p. 6). The competition could attempt to acquire parts of Campbell's key personnel or even target specific subsidiaries to attain the genuine market understanding, but the strength is in the sum of the parts, and not in one single employee or subsidiary and for that reason replicating the insight needed to deliver such a range of products is in the authors view extremely difficult and makes this capability highly in-imitable.

The last parameter for analyzing if consumer insight can yield sustained competitive advantage is the organizational aspect of Campbell's. As mentioned earlier Campbell has existed for decades and built up a large company with global operations, organizationally one might think that Campbell has it covered but the fact is that management teams change and the strategic direction they set can change the organizational structure and in fact limit a company's ability to exploit valuable resources. In 2011, Denise Morrison took over as CEO replacing Douglas Conant. There was nothing dramatic about the change, Douglas had acted as the CEO for ten years and his strategy had both made Campbell see increased revenue and profitability. In table 1 one can see that half of the executive team has only held their current position for one year, while 40% of the executive team has less than five years at Campbell. Together they hold 100 years of Campbell experience while the latest executive board of Douglas Conant held 177 years but was also 60% larger. The current executive team is in other words very young, to some degree this is due to members retiring but some members have also moved to the competition, one example is Sean Connolly who is the CEO of ConAgra Foods one of Campbell's large competitors.

Table 1.   **Campbell's executive as of 10/05/2016**

Name	Years at Campbell	Current position	Years in current position
Denise M. Morrison	13	CEO	5
Mark R. Alexander	25	President, Americas Simple Meals and Beverages	4
Carlos J.Barroso	3	Senior Vice President, Global Research and Development and Quality	3
Edward Carolan	13	Senior Vice President, Integrated Global Services	1
Adam G. Ciongoli	1	Senior Vice President, general Counsel and Secretary	1
Anthoony P. DiSilvestro	20	Senior Vice President and Chief Financial Officer	2
Jeffrey T. Dunn	1	President, Campbell Fresh	1
Luca Mignini	3	President, Global Biscuits and Snacks	1
Robert W. Morrissey	13	Senior Vice President and Chief Human Resources Officer	3
Michael P. Senackerib	8	Senior Vice President and Chief Strategy Officer	1

Source: Authors own compilation, based on data from LinkedIn and (Campbell Soup Company, 2001-2015)

Even though Campbell has seen management experience move on to other endeavors the authors deem it highly likely that their knowledge has been internalized in the Campbell organization, both in regards to building strong brands and skill in exploiting consumer insight. The authors therefore perceive Campbell's as fully capable to exploit their market positions.

4.3.1.2 Product Innovation

When operating in a market with a high degree of "premiumness" innovation becomes a key to success (Vishwanath & Mark, 1997). According to Vishwanath, Campbell should in its soup segment follow a "High road" strategy, which entails maintaining and growing your premium products through continuous innovation. For the

segments where Campbell does not hold market leadership the strategy proposed by Vishwanath is to steal market share by innovation while not competing on price, but simply follow the pricing strategy of the market leader.

Measuring the successfulness of Campbell's innovations is difficult due to lack of data and

Figure 19.   Measuring Successful Innovation
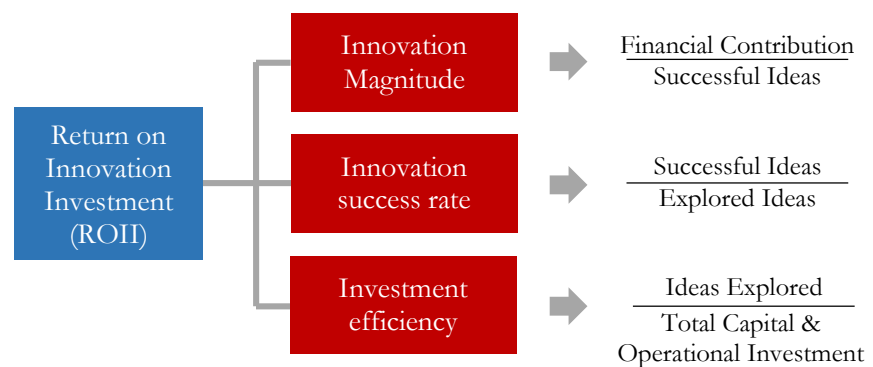
Source: Authors own compilation, based on (Anthony, 2013)

due to the fact that there is no real consensus as to what makes an innovative company (Anthony, 2013). Calculating the return on innovation investment (ROII) would calculate the financial impact of innovation, but reporting guidelines does not enable externals to analyze this metric. Also, in order to truly dig into the root of what makes a company successful at innovation one would have to dig even deeper (Anthony, 2013). Basically, a company may be a successful innovator using different innovation strategies (Anthony, 2013). The lack of consensus as to "what defines an idea?" or "what characterizes a success?" makes benchmarking a company's ability to innovate impossible to put into a context that adds analytical value. In 2014 Campbell communicated their intention to launch more than 200 new products (Campbell Soup Company, 2014b), at the CAGNY conference Denise Morrison said that its subsidiary, Bolthouse Farms, would launch 14 new products in 2016, new Campbell products within the organic and fresh foods segment will also launch (Campbell Soup Company, 2016b). But, introducing new products does not constitute successful product innovation. On the 25th of February 2016 Campbell announced that it would discontinue its V8 branded protein products, just one year after introducing the new product line (Campbell Soup Company, 2016). Without knowing the financial implications of both developing ideas, transforming them into viable products and seeing the financial returns it is difficult to evaluate Campbell's successfulness as an innovator, the amount of new products launched tells us that Campbell try to innovate and have the ability to bring new innovations to market, but not whether such innovations are creating meaningful value or at what level of efficiency Campbell is able to launch new products.

To some extent the ability to innovate and generate value creating new products may be perceived as a rare capability, but, the successfulness of new products is not only an effect of innovation but more importantly of consumer insights, which has been discussed earlier. Hence, one may argue that the ability to turn consumer insight into new products through product innovation is a rare capability. However, a range of food manufacturers operate at scale and are able to continuously spend resources on R&D and launch new products, the ability to innovate and launch new products can therefore not be perceived as unique.

Whether or not new innovations are imitable depends heavily on the nature of the innovation. Innovations that are patented protected or costly to imitate may enjoy a first mover advantage, but are not in the authors view perfectly in-imitable. Patented protected production technology or packaging solutions will yield a short-term advantage for the innovator but are subject to risk of imitation in the long run. The same can be said for costly innovation, the food manufacturer market is filled with large competitors with the ability to invest heavily in R&D and hence imitate, they will however only do this if the fundamental economics are satisfying. In conclusion, it is the view of the authors that although innovation may yield first mover advantage it is imitable and hence not capable of creating a sustained competitive advantage.

Essentially, great innovation is the result of implementing consumer insight into Campbell's value chain. The track record of Campbell is in this regard ambiguous, in the soup segment there is no doubt that Campbell has been a great innovator both by transcending the U.S. soup market 100 years ago and by leveraging their U.S. position into new markets that required different type of products but still maintained the scalability of its home market. In other segments innovation has not been the clear go-to route, since 2011 Campbell has gone from focusing on its core to investing in new growth markets such as fresh, organic and healthy foods. As part of this move Campbell has launched several new products leveraging their Campbell brands into the organic foods segment, while the fresh and healthy foods expansion in large has been executed through acquisitions. These acquisitions are however becoming more and more integrated in the Campbell organization and hence the authors expect an increase of new products from Campbell in this segment, especially from brands such as Plum Organics, Bolthouse farms and GardenFresh Gourmet who all are expected to launch several new products in 2016 (Campbell Soup Company, 2016b).

4.3.1.3   M&A Experience & Expertise

Since Campbell acquired its first company back in 1915 the company has acquired 15 companies/brands and divested two. During the management period of Douglas Conant Campbell's focus was on strengthening its core, surprisingly this meant that for ten years the company only did one acquisition through its subsidiary Pepperidge farms and divested Godiva chocolates. With Denise Morrison as CEO Campbell initiated a strategic shift, and a large part of that shift is to expand to new growth areas, something they are doing both organically and through acquisitions. Since 2011, Campbell has acquired four companies: Bolthouse farms in 2012, Plum Organics and Kelsen Group in 2013 and in 2015 Campbell's acquired Garden Fresh Gourmet (See appendix 1 for full M&A

history). Campbell also recently launched a new venture capital fund of $125 million, which is a space few competitors actually operate in, Coca-Cola Co. and General Mills Inc. invests in new ventures but do so internally (Gasparo, 2016). Campbell's venture activity will be managed externally and shows that Campbell is trying to find new avenues for growth.

The value of M&A is unquestionable for consumer products manufacturers. Bain finds that this segment on average is able to deliver a three percent premium on total shareholder returns compared to other industries as an effect of M&A activity (Bain, 2015). By including M&A into its strategy, Campbell is able to strategically shift its operations to more high growth spaces quicker, this is important because the majority of markets that Campbell operate in are highly saturated and see low growth. With M&A appearing as an important driver for growth in the food industry, it is no wonder that so many firms in this industry consistently acquire, divests and merge with other parties to gain more scale. Once companies gain some degree of scale they are perfectly able to conduct M&A activity, over time firms such as Kellogg's, Nestle and the Kraft Heinz Company have used such strategies with success to build up large brand portfolios. It is the view of the authors that such a capability is not rare. To some degree it can be difficult to imitate because successful firms develop a repeatable model based on experience (Barney & Hesterly, Strategic Management and Competitive Advantage, 2006). Smaller firms will likely be at a disadvantage, but in the long term firms are themselves in control of whether to build up such experience, so the capability is to no extent perfectly in-imitable. Whether Campbell has the organization to execute successful M&A activity is heavily linked to the rarity and in-imitability of this capability. As an organization Campbell has executed relative few and smaller deals compared to its competition, their experience of both a pre- and post-merger process is therefore limited. Whether their latest acquisitions are successes is too early to tell, the growth in the operating segments is good but the acquisitions are not yet fully integrated in the Campbell organization. The launch of the venture fund is an interesting move as Campbell seeks to tap into food startups in Silicon Valley, but the fact that Campbell has outsourced the execution to an external partner is evidence of Campbell's lacking experience of conducting an acquisition strategy. The history of Campbell as a successful M&A player in the food industry is not established, it is the view of the authors that Campbell is pursuing some exciting new ventures but their history of such is too short to be the source of competitive advantage. Furthermore, it is the view of the authors that sustained competitive advantage through M&A activity is close to impossible in the food sector.

4.3.1.4   Summary

The main source of Campbell's sustained competitive advantage lies in their intangible capabilities. It is the view of the authors that none of the tangible resources currently possessed by Campbell yield a competitive advantage. The analysis shows that Campbell, mainly through its soup operation, hold extensive knowledge and consumer insight which is evident by their many market leadership positions in this segment in the U.S. and abroad. The ability to innovate and to grow through M&A activity are deemed valuable resources, but in no way rare or in-imitable, one might say that they have become a prerequisite for growth in a highly saturated market. None the less, seen in relation to superior consumer insight these capabilities are enhanced because it should drive more

successful innovation and lead to transactions that are in line with consumer behavior, which enhances the competitive and economic implications. In essence, superior consumer insight is the real valuable resource while product innovation and M&A activity are important tools needed to transform consumer insight into a sustained competitive advantage, together the three can successfully be employed to establish a winning strategy.

5 FINANCIAL ANALYSIS

The following section defines a peer group for Campbell. Defining a peer group is an important aspect of analyzing a firm's strategic and financial situation as it acts as a valuable benchmark, used to put the financial performance in context. In order to accurately compare Campbell to its peer group, a reclassification of financial statements has been conducted. The key aspects of Campbell's reclassification are presented in section 5.1, while the reclassification of financial statements belonging to the peer group is presented in appendix 14. The financial analysis is mainly dedicated to the performance in return on invested capital, its underlying drivers and various profitability measures as well as a credit risk analysis which enables the authors to further assess the short- and long-term liquidity situation in Campbell. This approach is considered to produce a high degree of analytical value.

5.1 RECLASSIFICATION OF FINANCIAL STATEMENTS

The consolidated income statements and the consolidated balance sheets of Campbell collected from the company's annual- and quarterly- reports, goes 16 years (2001 – 2016) and have been reformulated in order to enhance the transparency relating to value creation within the firm. It is the opinion of the authors that a 16-year period adds insight because it yields company performance across two periods with different top management as well as insight into performance pre- and post- the financial crisis.

The credible forecasting of a company's free cash flow has to be based on both a thorough understanding of the company's & the industry's historical performance and on a strategic assessment of the future development of such company. Traditional financial statements do not separate between "operational" and "investments in operations" from "financing activities", and hence a practice of reclassification is important in order to understand the underlying drivers for fundamental value creation (Petersen & Plenborg, 2012, p. 68). Understanding the underlying drivers for historical performance and the ability to relate future market developments into the firm's business model are key aspects for a credible estimate of future cash flows. Sub sections 5.1.1 & 5.1.2 present the main reclassifications to the financial statements, for full overview of the analytical income- and balance sheet statements see appendix 8.

5.1.1 Consolidated Income Statement – Analytical Income Statement

Campbell's original consolidated income statements are fairly transparent; and classifying accounting items as belonging to either "operations" or "finance" is relatively straightforward (See appendix 7). However, in order to clearly paint an analytical picture of the different sources of value creation within the firm some further breakdowns have been found necessary.

5.1.1.1 Cost of Products Sold

The low transparency relating to depreciation expenses in Campbell's consolidated income statement is severe. Most depreciation is incorporated in "Cost of Products Sold" (COGS) while some is included in other operational expenses, such as marketing and research etc.; the segmentation thereof is not transparent (Campbell Soup Company, 2015a). A general assumption, stating that all depreciation expenses are accounted for in COGS has

been made. As a result, total depreciation expenses have been deducted from COGS, and added back after EBITDA as a separate accounting item.

5.1.1.2   Income Tax and Tax Shield

Campbell reports the weighted marginal tax rate, which makes it impossible to segment according to region or country. Income tax relates to both operating and financing activities, and therefore needs to be divided between them in order to calculate NOPAT, which is an after tax measure on the operating performance of the firm. This separation is conducted through estimating the tax advantage generated by the company's financial expenses. This tax advantage, better known as a "tax shield" is then added back on top of EBIT in order to reach NOPAT (Petersen & Plenborg, 2012, p. 73). The tax advantage (Tax Shield) has been calculated as follows:

Eq. 1. $\textbf{\textit{Tax Shield}} = (\textbf{\textit{Tax Rate}} * \textbf{\textit{Net Financial Expenses}})$

5.1.2   Consolidated Balance Sheet – Analytical Balance Sheet

In order to reclassify the consolidated balance sheet in a matching structure to that of the analytical income statement, a detailed alignment including all annual report notes was performed. The full breakdown of all accounting items allowed for an accurate split between operational or financial items and the calculation of invested capital.

Figure 20.   **Consolidated to Analytical Balance Sheet**

Source: Authors own compilation based on (Petersen & Plenborg, 2012, p. 74)

5.1.2.1   Current assets

From the original current assets section "cash and cash equivalents" and "fair value of derivatives" have been subtracted and moved to the section "interest bearing assets" in the analytical balance sheet. One could argue that some derivatives are not interest bearing, but the fair value will always be the result from a valuation technique utilizing a discount rate which is based on interest rates, hence the rationale for the classification.

5.1.2.2   Non-current assets

From the original non-current assets section "prepaid pension benefit costs" and "intangible pension assets" have been subtracted and moved to the section "interest bearing assets" in the analytical balance sheet. The rationale is

the same as in 5.1.2.1, which is that the fair value of pension is based on the present value of future benefits (Campbell Soup Company, 2015a, p. 54)

5.1.2.3 Current liabilities

From the original current liabilities section "payable to suppliers and others", "accrued liabilities", "dividend payable" and "accrued income taxes" have been subtracted and moved to the section "non-interest bearing debt" in the analytical balance sheet. The first items are assumed to be non-interest bearing, the payables cycle is on average around 30 days, so linking such payment to an interest rate seems unlikely (see section 5.4.1.1.1).

5.1.2.4 Non-current liabilities

From the original non-current liabilities section "long term debt", "non-pension post-retirement benefits", "postemployment benefits", "fair value of derivatives", and "non-current liabilities of discontinued operations held for sale" have been moved to the section "interest bearing debt", while "deferred taxes", "deferred compensation", "other", "unrecognized tax benefit" and "restructuring" are moved to the section "non-interest bearing debt" in the analytical balance sheet. Deferred taxes are difficult to assess, some perceive them as "quasi equity items" because the liability has a very long maturity and sometimes even never paid (Petersen & Plenborg, 2012, pp. 431-433). Inevitably, tax is a derivative of operational activity and has therefore been treated as an operational activity.

5.1.2.5 Shareholders' equity

In regards to the shareholder's equity section no reclassification was deemed necessary, hence the section appears identical in both the original and analytical balance sheet. Non-controlling interests, which appears as a separate item under the "equity" section in the original version is incorporated into the "equity" headline in the analytical balance sheet. The non-controlling interest belong to Campbell's two joint-venture initiatives, of which they hold majority, these initiatives are vital parts of Campbell's expansion into China and Malaysia, and hence highly connected to the operational activities and directly linked with the top level communicated strategy of Campbell (Campbell Soup Company, 2015a, p. 17).

5.2 DEFINING THE PEER GROUP

In order to evaluate the relative historical performance and outlook for Campbell the firm must be seen in comparison with a comparable group of companies. Several factors have been taken into consideration by the authors when defining the peer group. According to Petersen & Plenborg the comparability of the peer group relies on firms adhering to the same accounting standards and holding similar risk profiles (Petersen & Plenborg, 2012, pp. 64-65). Using the peer group and their valuation multiples, the authors are capable of evaluating the results from the DCF and LBO valuations, in other words the peer group also work as a "sanity check".

The peer group should consist of firms with similar drivers for operational performance. This means that comparable firms are those that hold characteristics which lead to similar growth prospects and ROIC (Koller, Goedhart, & Wessels, Valuation, Measuring and managing the value of companies, 2010). The authors expand this logic to also include companies that are perceived as holding equal opportunities to experience growth and create

ROIC. This is more relevant in regards to the LBO analysis because that scenario revolves around an active investor taking direct action to shift some key characteristics to something that may not have been within the range of historical performance, but none-the-less seen among industry participants.

Besides looking at growth and ROIC, the authors also analyze the EV/EBITDA multiple. Aswath Damodaran point to five key reasons for why practitioners are increasingly applying this multiple: **1.** For most firms EBITDA is usually always positive so the multiple is usually computable **2.** The multiple has historically shown to be more appropriate than the price-to-earnings ratio **3.** EBITDA will in the short term be what supports debt-repayment and is therefore a key parameter in regards to leverage buyouts **4.** Because one looks at cash flows prior to capital expenditure the multiple may provide a better estimate (some capital expenditure deliver abnormal returns) **5.** EBITDA allows for firms with different financial leverage to be evaluated on comparable terms (Damodaran, Valuation: Relative Valuation and Private Company Valuation, 2012). The below equation shows that the EV/EBITDA multiple is composed of the return on invested capital (ROIC), the growth rate (g), the weighted average cost of capital (WACC), the tax rate (t) and the depreciation & amortization (D&A).

Eq. 2. $$\frac{EV}{EBITDA} = \frac{ROIC-g}{ROIC*(WACC-g)} * (1-t) * (1-D\&A^9)$$

Firms who conduct business in the same countries and operate within the same industry segments will experience similar tax rates and cost of capital. Although Campbell's products are sold in more than 100 countries their main market is the U.S. which represents around 80% of sales, and more than 90% in developed countries. Firms with a relative large exposure to the U.S. and developed economies are viewed as a key characteristic to the peer group. The presumption is that such firms would hold similar tax rates and cost of capital. Nonetheless, the likelihood of close to equal multiples is low as growth rates and ROIC usually differ within an industry (Koller, Goedhart, & Wessels, Valuation, Measuring and managing the value of companies, 2010, p. 306). As a consequence, the authors have analyzed the prospects for growth and the EBITDA margin. With the peer group constituted by large, exchange-traded multinationals the difference of tax rates and cost of capital are expected to be small. There may be smaller differences in accounting practice, for example IFRS or GAAP, but this is also believed to have limited effect on the purpose of this analysis.

---

[9] D&A as a % of EBITDA

Figure 21.   Peer Group Valuation Multiples & Consensus Projected Financial Performance

	EV/ EBITDA	Sales growth Y-o-Y 2016 - 2020	EBITDA Margin 2016E
ConAgra Foods	47.9x	2.3%	16.4%
Kellogg Co.	19.1x	2.2%	18.9%
General Mills	14.0x	1.5%	20.2%
The JM Smucker Co	16.9x	2.4%	21.5%
Campbell Soup Co.	**17.3x**	**2.3%**	**22.2%**
The Kraft Heinz Co	39.6x	3.6%	28.2%
Mead Johnson Nutrition	14.6x	4.4%	27.2%
Average	**24.2x**	**2.7%**	**22.1%**

Low Growth & Low Margin	Low Growth & High Margin	High Growth & High Margin
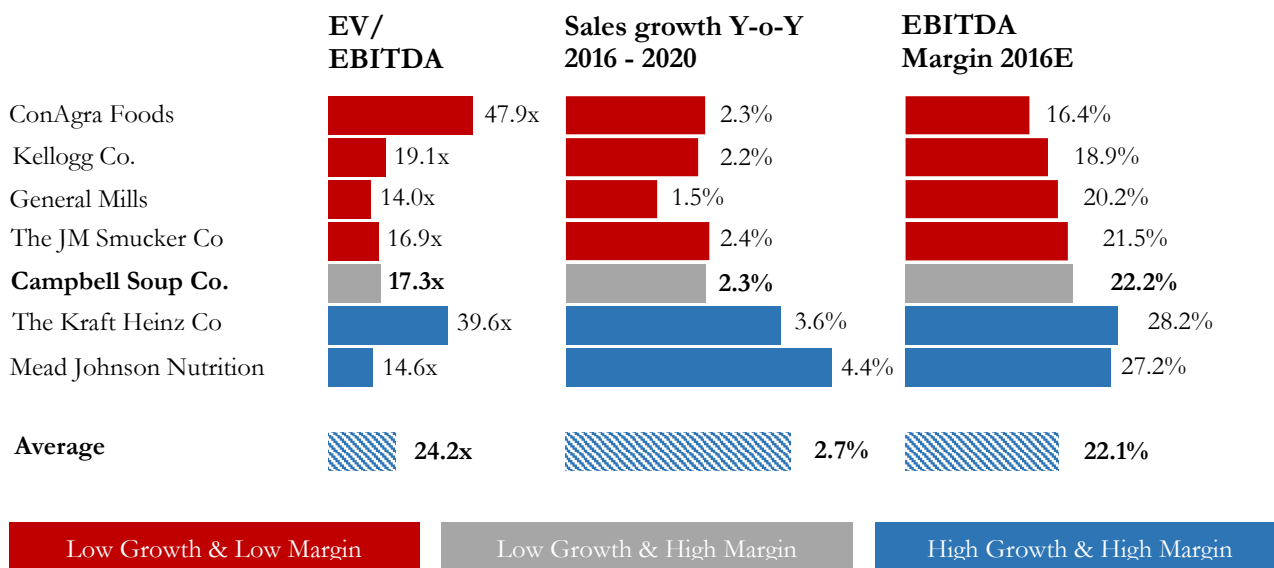
Source: Authors own compilation based on data from (Thomson One, 2016)

Compared to peer group averages Campbell is performing averagely, their growth rate is expected to be 2.3%. The expectations are hence for Campbell to grow at a steady pace, slightly below peer average. Their margins are however relatively good, but when diving one step further one sees that the EBITDA margin spans wide across its operating segments, ranging from 13.5% to 25.8%, it is clear the U.S. Simple Meals segment (which includes its soup operation) is making up for several of its other operations that are delivering sub-par results. The general peer overview is however rather peculiar, as there does not seem to be any obvious relationship between valuation multiple, growth and EBITDA margin prospects. The above peer group is perceived as the most comparable.

Figure 22.   EBITDA Margin Fiscal Year 2015

	EBITDA Margin 2015
Bolthouse & Foodservice	13.5%
International Simple Meals & Beverages	14.0%
Global Baking & Snacks	18.4%
U.S. Beverages	19.6%
U.S. Simple Meals	25.8%
Campbell Soup*	**20.0%**
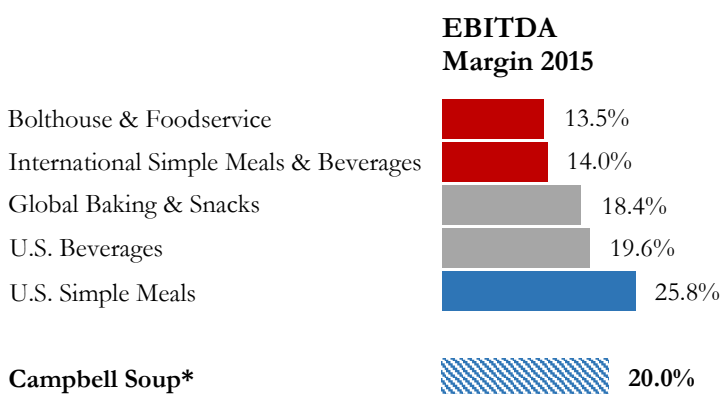
Source: Authors own compilation based on data from (Campbell Soup Company, 2015a)
Excludes: Unallocated corporate expenses and restructuring charges

There is however limited financial data on the Kraft Heinz company which listed on the New York Stock Exchange in 2015. The Mead Johnson company operates in a niche of the food manufacturing industry, a niche that Campbell is entering (Baby food) but a segment that differs substantially from Campbell's core revenue generators. The remaining four companies are all larger multinationals with extensive brand portfolios and share similar geographical distribution of net sales.

5.2.1.1   ConAgra Foods

Founded in 1919 as a floor milling company the company has evolved immensely, becoming one of the leading food companies in the U.S. The company saw sales of $15.8 billion in 2015 up from $13.5 billion in 2014. The large growth came primarily from it catering to a new segment, private brands. Their main segments of operation are; consumer foods (46.2%), commercial foods (27.3%) and private brands (26.5%). As of 09/03/2016 the company held a market capitalization of close to $18.6 billion and an enterprise value of almost $26.5 billion, the twelve-month trailing EBITDA was at that point $552 million.

5.2.1.2   Kellogg Company

Founded in 1906 with the aim of helping people enjoy a healthier breakfast Kellogg Company has become a global behemoth in the cereal and snack segment of the food industry. Their main segments of operation are; U.S. Morning Foods & Kashi (22.9%), North America (10.1%), U.S. Snacks (24%), Europe (19.8%), Latin America (8.3%), U.S. Specialty (8.2%) and Asia-Pacific (6.8%). The company saw sales of $13.5 billion in 2015 down from $14.6 billion in 2014; the decline comes primarily from consumer trends shying away from "the cereal breakfast" a core segment for Kellogg's. As of 09/03/2016 the company held a market capitalization of close to $26.2 billion and an enterprise value of almost $33.7 billion, the twelve-month trailing EBITDA was at that point $1.76 billion.

5.2.1.3   General Mills

The company was founded in 1928 but the journey started in the 1860s with flour production in Minneapolis. Today the company holds a brand portfolio consisting of Hägen-Dazs, Betty Crocker and El Paso, to mention a few. Their main segments of operation are; U.S. Retail (59.6%), International (29.1%) and Bakeries/Foodservice (11.3%). The company saw sales of $17.3 billion in 2015[10] down from $17.6 billion in 2014[11]. As of 09/03/2016 the company held a market capitalization of close to $35.6 billion and an enterprise value of almost $44.1 billion, the twelve-month trailing EBITDA was at that point $3.15 billion.

5.2.1.4   The J.M. Smucker Company

The company was founded in 1897 and produces fruit spreads, ice cream toppings, beverages, peanut butter among other products. The company is based in Orville, Ohio of where it was also founded. Their main segments of operation are; U.S. Retail Consumer Foods (37%), U.S. Retail Coffee Market (36.5%), International, Foodservice, and Natural Foods (22.4%) and U.S. Retail Pet Foods (4.1%). The company saw sales of $7.45 billion in 2015[12] last twelve months compared to $5.5 billion in the prior period. As of 09/03/2016 the company held a market capitalization of close to $15.1 billion and an enterprise value of almost $20.2 billion, the twelve-month trailing EBITDA was at that point $1.2 billion.

---

[10] Twelve month trailing ending 29/11/2015
[11] Twelve month trailing ending 23/11/2014
[12] Twelve month trailing ending 31/01/2016

5.2.2 Share price development: Campbell Soup & Peer Group

Over the last five years the performance of Campbell stock has slow compared to the group, comparing to the NYSE index the share price has overall followed the index. The slow performance of food companies in general relate to the saturated U.S. food market and slow growth, most companies are trying to shift focus to emerging markets and growing sub segments of packaged foods. During the period Campbell's has seen margin improvement, but the sales growth has been below industry average, and this has been one of the main points of worry for investors and analysts following Campbell.

Figure 23.   Share price & Index development

Source: Authors own compilation based on data from (Bloomberg, 2016c)

5.3   PROFITABILITY ANALYSIS

Understanding how Campbell historically has created economic value is important before estimating the future cash flow of the company. The authors use the "DuPont model" which was created in 1912 by Donaldson Brown and has become a standard tool in the corporate world (Phillips, 2015). The appeal of DuPont's model is that the return on equity (ROE) is broken down into three components; profit margin, asset turnover and an equity-multiplier. The breakdown adds more insight into a company's performance because it decomposes the Economic Value Added (EVA) (Petersen & Plenborg, 2012, p. 94). The return on invested capital (ROIC) can be calculated as NOPAT divided by invested capital and hence measures the operational profitability. Campbell's profitability should be benchmarked against its peer group and the weighted average cost of capital (WACC).

In order to establish a proper benchmark, the authors have used end-of-year and before tax figures. A description of the calculations and a complete profitability analysis can be found in appendix 10 and 11. All except two of the peer companies hold different accounting periods, which make it impossible to perfectly compare accounting data across the firms. In order to compare the peer group, the authors have estimated the development by using average change in key metrics.
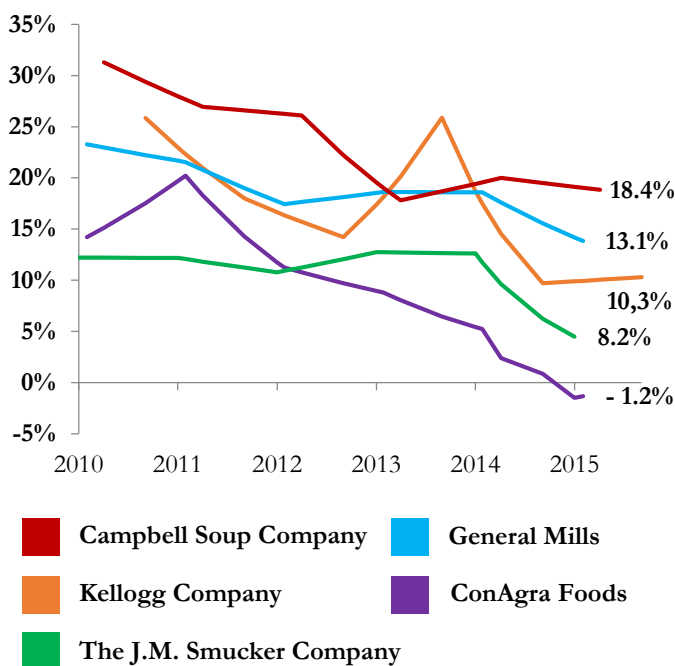
Figure 24.   ROIC (pre-tax)

Campbell Soup Company

General Mills

Kellogg Company

ConAgra Foods

The J.M. Smucker Company

Source: Authors own compilation based on (Campbell Soup Company, 2010 - 2015; Kellogg's, 2010 - 2015; The J.M. Smucker Company, 2010 - 2015; General Mills, 2010 - 2015; ConAgra Foods, 2010 - 2015)

There are two basic approaches to assess whether a company's return on invested capital is satisfactory, compare with the WACC and compare with the defined peer group (Petersen & Plenborg, 2012, s. 96). The first relies on a comparison with an estimated factor, using the WACC estimated for projections directly assumes that the current WACC is equal to the historical, while assessing the historical WACC is equally problematic. The second option is to compare to the firm's peer group, but this may also be problematic, in this case the difference in accounting policies may distort the picture (Petersen & Plenborg, 2012, p. 64). From figure 24 it is clear that Campbell is delivering ROIC that succeeds that of its peer group, the ROIC is also well above the estimated WACC (see section

8.1) for Campbell indicating that the company is generating excess return (Petersen & Plenborg, 2012, p. 97). The negative trend over the last few years is troublesome, but also shared by the whole peer group. The declining ability to create return is likely linked to some of the issues raised in section 4., such as pressure on prices from retailers and private labels as well as the lower purchasing power of middle class consumers. To assess further what is

actually affecting the declining ROIC the authors split ROIC into two components, the profit margin (PM) and the asset turnover rate (ATO). The historical window is also widened to include the period prior to the financial crisis as this period consisted by a larger middle class with stronger purchasing power. The formulas for ROE, ROIC, PM, ATO and FGEAR are shown below:

Eq. 3. $$ROE = ROIC * FGEAR$$

Eq. 4. $$ROIC = PM * ATO$$

Eq. 5. $$PM_{after\ tax} = \frac{NOPAT}{Revenue}\ ,\ PM_{before\ tax} = \frac{EBIT}{Revenue}$$

Eq. 6. $$ATO = \frac{Average(Invested\ Capital_{t-1}\ ,\ Invested\ Capital_t)}{Revenue}$$

Eq. 7. $$FGEAR = \frac{Debt}{Equity} * \left(ROIC - \frac{Net\ Financial\ Expenses_{After\ Tax}}{Net\ Interest\ Bearing\ Debt} \right)$$

5.3.1.1 Profit Margin & ATO

The PM is calculated as EBIT divided by revenue (pre-tax) or as NOPAT divided by revenue (post-tax), the PM therefore describes the relationship between revenue and operational costs, in this section the PM before tax is used in order to enhance comparability with peers. The ATO is derived by dividing revenue with invested capital and therefore describes the firm's ability to utilize invested capital. The higher the ATO the more attractive the operation is because it means that the firm ties invested capital for a shorter period of time (Petersen & Plenborg, 2012, p. 108). Looking at figure 25 the PM has maintained itself rather stable around 15-16% while the ATO has shown a clear negative trend since 2008. The

Figure 25.   Campbell's PM & ATO
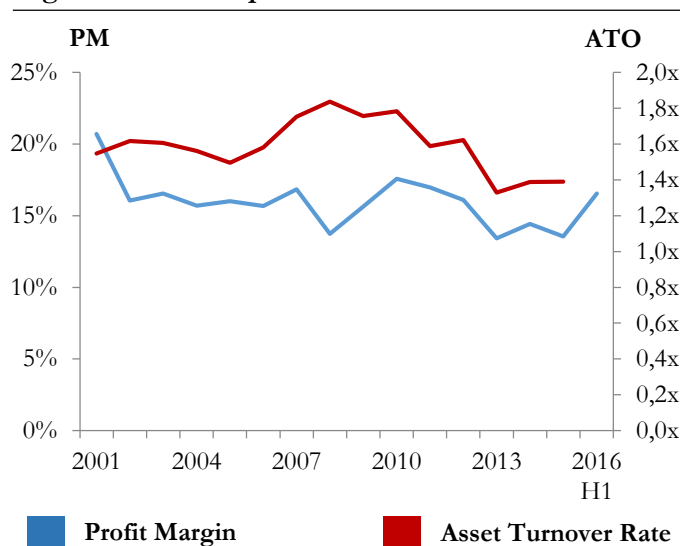
Source: Authors own compilation based on data from (Campbell Soup Company, 2001-2015)

trend in ATO therefore appears to be the main driver for declining ROIC.

5.3.1.1.1 Profit Margin

As can be seen from figure 25 the latest PM was at 16.6% and on average has centered around 16% since 2001. The PM therefore has not changed dramatically and appears stable. It had a decline in 2013, largely led by increased D&A and restructuring costs linked to Campbell's acquisition of Plum Organics, Garden Fresh Gourmet, Kelsen Group and Bolthouse Farms, see appendix 1. for a full overview of M&A activity.

Compared to its peers the profit margin is good (see figure 26), although it is surpassed by General Mills. The whole peer group and Campbell have experienced declining margins, but the industry seems to be undergoing a change of trend with margins across the board having increased over the last year. Campbell's profit margin also shows low volatility compared to peers, some of which have seen very large movements (i.e. Kellogg's and ConAgra Foods). Behind the PM, Campbell has seen a decreasing gross margin. The stable PM is in large due to Campbell's ability to find cost savings in operational expenses.

5.3.1.2   Asset Turnover Rate

The ATO has decreased from 1.8x (2007 – 2010) to 1.3x in 2013 and was in 2015 just below 1.4x, this is the main driver for declining ROIC. Looking further, declining revenues in 2011 and 2012, as well as relatively flat sales the last three years, combined with a growing balance sheet has led to a diminished ability to create excess returns for shareholders. It could therefore be expected that once the latest acquisitions are fully integrated in Campbell's business then the company will see ATO returning to levels north of 1.5x.

Figure 26.   PM & ATO for Campbell and Peer Group
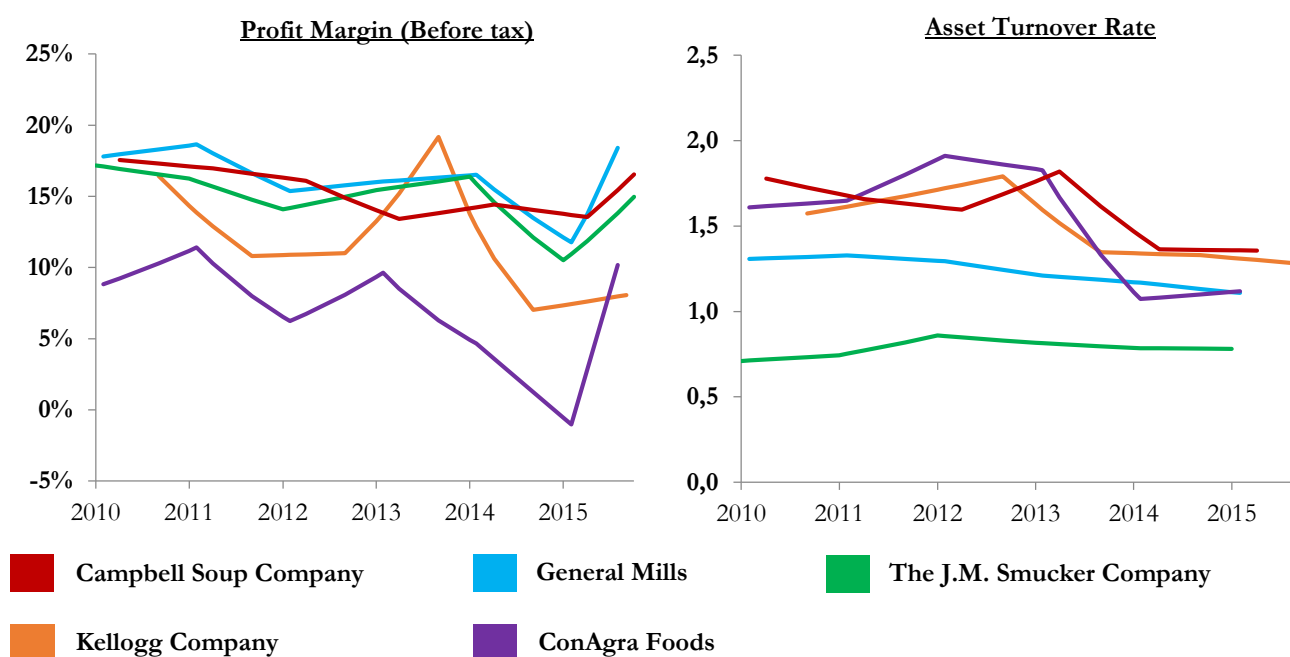
Source: Authors own compilation based on (Campbell Soup Company, 2001-2015; Campbell Soup Company, 2016)

5.3.1.3   Stagnated Growth

The above metrics clearly indicate that slow growth in revenue in comparison to increased investments in new segments have resulted in lower ROIC for Campbell. Decomposing the revenue of Campbell is difficult over time because the company has restructured their business units several times over the analysis period, latest in 2015. In an approach to dig deeper into the revenue streams, the authors have used retail sales data from Euromonitor to estimate Campbell's revenue distribution per product category, this yields more specific categorization of revenue

but is also prone to errors as it is based on retail data. The retail data is not fully comparable for several obvious reasons; among them a potential difference in reporting period and the difference in margins per segment between Campbell's and their retail customers. The estimated distribution can however be compared against the broader segmentation offered by Campbell's which works as a "sanity check". It is the view of the authors that the method yields satisfactory results.

When looking at the geographical segmentation of revenues it is clear that most of the revenue derives from Campbell's U.S. market, the surprise is however that the U.S. market also has held the highest growth (since 2011). This is surprising because this market is highly saturated, see section 4. The fact is that the slow growth in other markets and negative growth in Australia is in large an effect of changing currency markets, with the US dollar having appreciated substantially against the Australian dollar and several emerging market currencies. For the past few years, Campbell has advocated a move to emerging markets, for example by the acquisition of the Kelsen Group in 2013, but with currencies in core markets devaluated >30% against the USD the currency factor becomes a clear driver for revenue sensitivity. Digging deeper into the U.S. market one sees that the revenue streams from its core markets are growing slowly (see table 2). Campbell's investments have been targeted towards sectors outside their core, such as baby food (Plum Organics) and Biscuits & Snacks (Kelsen Group), these sectors have also grown above average in the U.S. The main reason for slow/flat growth in revenue therefore seems to be emerging markets and Australia as well as slow growth in the soup category. Based on what we know from section 4.1.2.5 the unsatisfactory development in these markets is in large due to depreciating foreign currency as well as loss of market share to private labels and smaller market participants. Two factors are therefore important for revenue growth, first of all the latest acquisitions represent small operations in fast growing segments, it is therefore incremental that Campbell manages to grow these operations to satisfactory scale, this is especially the case for Plum Organics and Garden Fresh Gourmet. Secondly, the currency factor is impossible to mitigate in the long run, emerging markets are still growing fast and currency pairs should stabilize at some point.

Table. 2.   Indexed Revenue

	2011	2012	2013	2014	2015
U.S. Market	**100.0**	**100.9**	**116.7**	**121.2**	**120.6**
Soup	100.0	97.0	108.8	111.2	110.6
Biscuits & Snacks	100.0	103.3	122.5	127.2	130.8
Sauces, Dressings etc.	100.0	99.1	118.4	129.0	129.9
Baked Goods	100.0	96.3	116.6	120.2	118.2
Juice	100.0	116.6	130.4	138.3	133.1
Ready Meals	100.0	89.0	93.9	94.6	88.4
Baby Food	100.0	230.3	315.3	336.2	345.6
Processed Meats and Seafood	100.0	101.2	98.4	84.8	82.4
Ice Cream & Frozen Desserts	100.0	100.4	115.0	105.7	92.8
Rice, Pasta, Noodles	100.0	94.8	104.3	98.4	85.7
Australian Market	**100.0**	**97.3**	**95.1**	**84.2**	**76.7**
Soup	100.0	89.6	76.4	56.9	46.6
Biscuits & Snacks	100.0	96.9	95.0	85.1	78.0
Sauces, Dressings etc.	100.0	99.2	111.8	104.4	98.6
Baked Goods	100.0	117.5	111.1	95.5	85.6
Juice	100.0	94.2	111.7	107.9	102.3
Other Markets	**100.0**	**100.5**	**106.5**	**113.6**	**104.4**

Source: Authors own compilation based on (Campbell Soup Company, 2011 - 2015; Passport, 2016b; Passport, 2016c; Passport, 2016a)

5.3.1.3.1.1   *Increased Invested Capital*

Since 2011, the revenue has grown by 13%, at the same time the invested capital has grown by 29.3% (see table 3). In 2012 and 2013 Campbell acquired Bolthouse Farms for $1.55B (Gasparro, 2015) and Plum Organics and the Kelsen Group for a total of $574 million, which increased both non-current assets (primarily intangibles and plant assets) and net interest bearing debt. Overall, invested capital increased by 37% from 2012 to 2013. In 2015, Campbell acquired Garden Fresh Gourmet for $231 million (Gasparro, 2015). The acquisition of Bolthouse Farms was funded through raising long-term debt, while the others were funded by commercial paper issuances. The worrying aspect is whether or not Campbell has paid too much in order to enter these faster growing segments. The Net Sales of Bolthouse Farms was and still is just north of $700 million while EBIT in 2013 was $31 million; with increased D&A to the Bolthouse and Foodservice segment of $76 million that indicates an EV/EBITDA of around 14.5x at time of acquisition (Campbell Soup Company, 2013a). The average EV/EBITDA multiple for the food processing industry was just around 13x in 2013, the acquisition of Bolthouse Farms is hence slightly above average (William Blair, 2013). The other acquisitions are more difficult to assess as the information is limited. Plum Organics was acquired at EV/Sales of 17.8x while the Kelsen Group was acquired at 1.8x. It is impossible to say whether these acquisitions are good or not, the lack of information is too great, the gap between the EV/Sales ratios of Plum Organics and Kelsen Group is very large, but the companies also operate in very different segments. Since 2013 the invested capital has decreased slowly from year to year, something that is resulting in an increasing ATO. If Campbell is able to both continue to reduce invested capital while grow revenue then one should expect increasing ROIC, on the other hand, continued M&A activity into new growth segments will slow down this process.

Table. 3.   Index analysis of Campbell's Balance Sheet

	2011	2012	2013	2014	2015
Total Equity	100,0	81,9	110,4	146,3	125,5
Net Interest Bearing Deb	100,0	103,7	142,7	128,1	130,5
Invested Capital, Net Operating Liabilities	**100,0**	**98,4**	**134,8**	**132,5**	**129,3**
Total Non-Current Assets	100,0	97,3	124,6	123,2	122,5
Total Current Assets	100,0	94,8	127,1	125,4	122,3
Total Non-Interest Bearing debt	100,0	92,7	101,9	102,5	105,8
Invested Capital, Net Operating Assets	**100,0**	**98,4**	**134,8**	**132,5**	**129,3**

Source: Authors own compilation based on (Campbell Soup Company, 2010 - 2015)

5.3.1.4   **Return on Equity (ROE)**

From figure 27 it is evident that Campbell has had a negative development in ROE, however, the company is enjoying an ROE substantially higher than its peers, which for most has had a declining trend. The debt-to-equity ratio (D/E) of Campbell's and Kellogg is substantially larger than the rest of the peer group. At the same time, both firms have experienced a higher spread on leverage (ROIC – net borrowing cost in percent) (Petersen & Plenborg, 2012, p. 117), meaning that Campbell is able to deliver a higher return on borrowed capital compared to its peers. Campbell's D/E has been declining from 4x in 2014 to 2.3x in second quarter of 2016 (Campbell

Soup Company, 2016). The high degree of debt compared to peers does make Campbell more vulnerable to changes in profitability. On the other hand, the industry has historically shown to be relatively stable. Most of the debt has also, as far as the authors can tell, been invested in the U.S. minimizing the effect of currency volatility.

Figure 27.   Return on Equity (ROE)
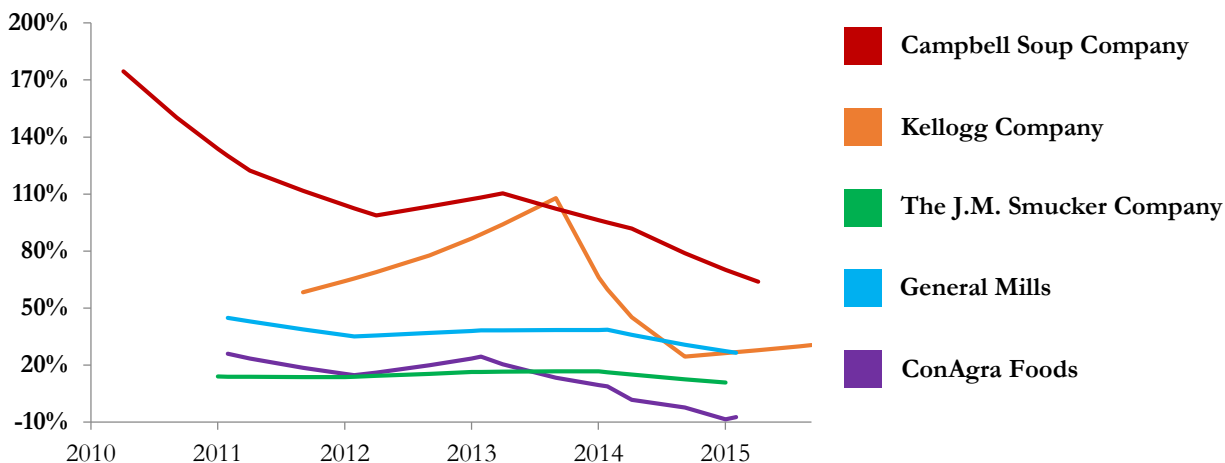
Source: Authors own compilation based on (Campbell Soup Company, 2010 - 2015)

5.4   RISK ANALYSIS

5.4.1   Liquidity risk analysis

Liquidity is an essential part of any business. A lack of liquidity leaves firm's less prone to respond to unexpected changes in their operation, for example acting on investment opportunities but also more severe factors such as lack of capital to just operate core business activities. Such occurrences may force a firm to divest business units it may not otherwise want to divest and even at unfavorable valuations. Lack of liquidity may also cause payment suspension and put valuable supplier relations at risk, it can tilt a company towards bankruptcy and ironically enough, poor liquidity management may also increase the cost of debt. Liquidity risk is hence directly linked to the firm's ability to generate positive cash flow in both the short- and long-term (Petersen & Plenborg, 2012, p. 150).

In the following section an array of key liquidity metrics has been used to analyze the situation at Campbell and its peers, the metrics are based on each company's annual reports, but just like the previous section, there is a bias related to different accounting periods. Nonetheless, these figures are used as they yield the most updated picture of each company (Petersen & Plenborg, 2012, p. 155).

5.4.1.1   Short-term liquidity risk

The short-term liquidity risk can be valued by assessing a range of metrics with basis in a firm's financial information. The authors have decided to utilize three metrics: "the liquidity cycle", "the current ratio" and "the quick ratio". The liquidity cycle shows how long it takes to convert working capital to cash, hence, the shorter time span needed in order to convert working capital to cash the better the short-term liquidity situation for a firm is

(Petersen & Plenborg, 2012, p. 153). The current ratio shows the relationship between current assets and current liabilities, the higher the ratio the higher the presumed likelihood of current assets being able to cover current liabilities should the liquidity need arise (Petersen & Plenborg, 2012, p. 155). The third metric, the quick ratio, tries to yield insight into the same issue as the current ratio but is more conservative as it only looks at the most liquid current assets (Petersen & Plenborg, 2012, p. 155).

Eq. 8. $$Liquidity\ Cycle = 365 * \frac{1}{\frac{COGS}{Avg.Inventory_{t,t-1}}} + 365 * \frac{1}{\frac{Net\ Sales}{Accounts\ Receivables}} - 365 * \frac{1}{\frac{COGS}{Avg.Payables_{t,t-1}}}$$

Eq. 9. $$The\ Current\ Ratio = \frac{Current\ Assets}{Current\ Liabilities}$$

Eq. 10. $$The\ Quick\ Ratio = \frac{Current\ Assets - Inventory}{Current\ Liabilities}$$

From figure 28 it is clear that the liquidity cycle has been increasing steadily since 2001, from when it was 30 days, to more than double in the second quarter of 2016. Hence, it takes Campbell twice as long to convert working capital into cash, something that is in large due to an increasing payables turnover rate. The current ratio has since its peak in 2010 declined but is still above its average of 0.63, the reduction can be seen in conjunction with Campbell's acquisitions as most of these were financed through commercial paper. The quick ratio, has like the current ratio, seen a decline since the financial crisis, but appears to have stabilized around its average of 0.3 the last few years. Although the metric is also affected by the same changes to liabilities as the current ratio, it is not affected by changes to inventory which represent more than half of current assets and which on average has seen an increase over the last decade. Campbell holds a higher liquidity risk compared to peers, but is actively seeking such a profile in order to utilize other capital as working capital (hence the negative working capital)

Figure 28.   Short-term liquidity indicators
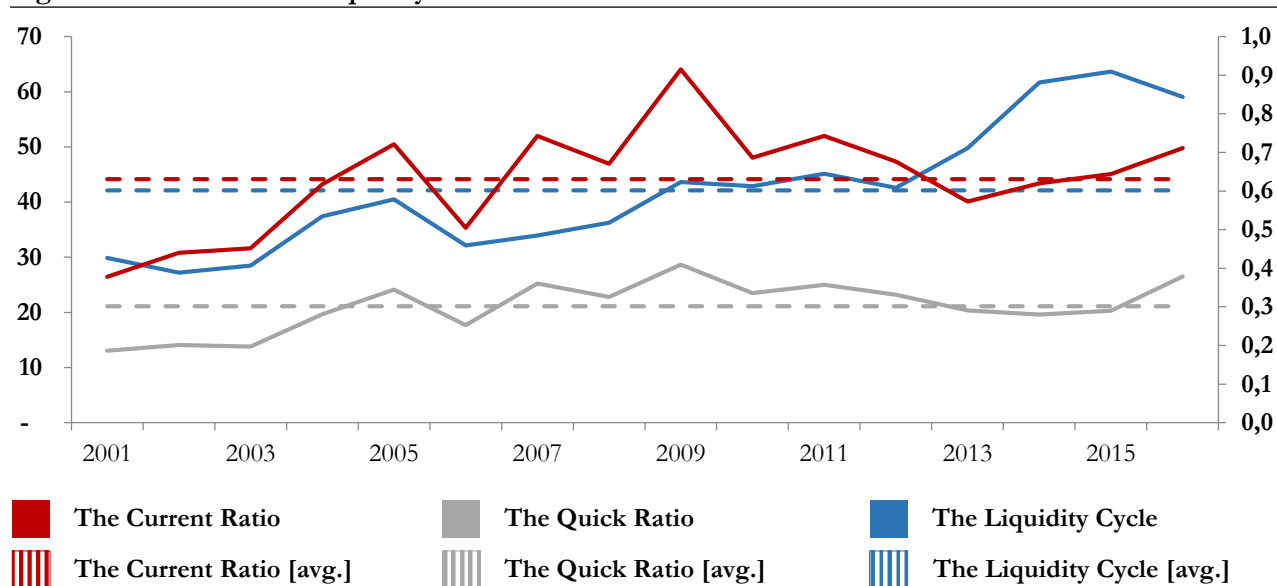
Source: Authors own compilation based on (Campbell Soup Company, 2001-2015; Campbell Soup Company, 2016)

5.4.1.1.1 Liquidity Cycle

The liquidity cycle of Campbell's has been declining (see figure 29) mostly due to a decline in turnover days for payables.

Compared to its peer group Campbell holds a relative average liquidity cycle, but the trend of increasing liquidity cycle does not appear to apply for the rest of the peer group (see appendix 16). For most peers the payable turnover has actually been increasing, indicating that other firms may have an increased bargaining power with its supplier group. In general, payable turnover lies between 30 and 60 days for the peer group, however, the differences may also just be a reflection of different strategies with suppliers. For example, a longer credit line with suppliers might be important for some, but would likely also mean a higher purchase price, if a firm does not need the extended credit then they may be able to negotiate more favorable price terms. In section 5.3.1.1.1 it was shown that Campbell hold higher margins than most of its peers, something that in part may be due to term agreements with its supplier group.

Figure 29.   Liquidity Cycle
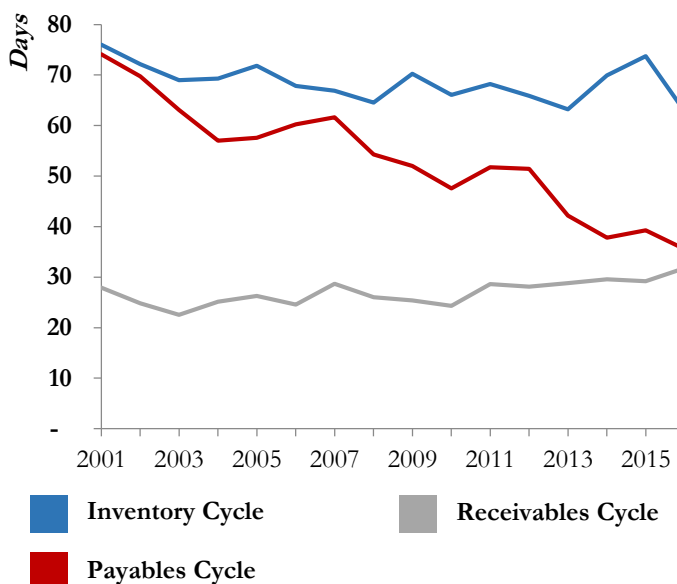
Source: Authors own compilation based on (Campbell Soup Company, 2001-2015)

5.4.1.1.2 Current Ratio

The current ratio of Campbell is 0.71 which is low compared to its peers, several of which hold ratios between 0.8 and 1.8, except for Kellogg who holds a ratio of 0.56 (see appendix 12 for full historical overview). This indicates that Campbell, compared to peers holds a higher liquidity risk, question is, is it alarming? Based on the strategic findings on Campbell, the low ratio could easily be a symptom of Campbell's intentionally tightly managed current liabilities. A ratio below 1.0 depicts a company with negative working capital, something Campbell has been consistently operating on. The authors believe this is an indicative of the firms bargaining power with suppliers, which based solely on current ratio, may be higher.

5.4.1.1.3 Quick Ratio

The quick ratio was 0.38 in Campbell's second quarter report for 2016 and has been steadily increasing over the last several years. The ratio tells a similar story to that of the current ratio, which is that Campbell, is consistently utilizing the capital of its suppliers as working capital. The quick ratio's 15-year average is 0.3 and the volatility is rather low something that indicates that this is a company strategy. There should however be no question about this increasing liquidity risk, which it does, it does however appear to be a common practice among industry peers to operate with negative working capital. The seemingly high liquidity risk is hence a direct effect of the apparently low operational risk. The full overview of peer group quick ratio can be seen in appendix 12.

5.4.1.2   Long-term liquidity risk

The long-term liquidity risk can be assessed through analyzing the financial leverage and the solvency ratio of Campbell and its peer group (Petersen & Plenborg, 2012, p. 158). The full overview and calculation of long-term liquidity risk metrics can be seen in appendix 12. The long-term liquidity risk is directly linked with the degree of leverage, as a firm is required to allocate more cash flow to its long-term obligations. A high degree of financial leverage results in a low solvency ratio, which leads to increased liquidity risk (Petersen & Plenborg, 2012, p. 158).

The solvency ratio based on book- and market values tell different stories about Campbell. The full historical development can be seen in appendix 12, there, one can see that the solvency ratio based on book value has moved from negative to approximately 0.19. The last five-year development can be seen in figure 30 below and shows that Campbell's solvency ratio (BV[13]) is low compared to its peer group, indicating a higher liquidity risk associated with Campbell. However, the solvency ratio (MV[14]), also seen in figure 30, shows that Campbell holds the highest solvency ratio among its peers supported by decreasing financial leverage, which has mostly been driven by increasing equity valuation as total liabilities has stayed relatively stable around $6 billion.

Figure 30.   **Solvency Ratio, Campbell Soup Company & Peer Group**
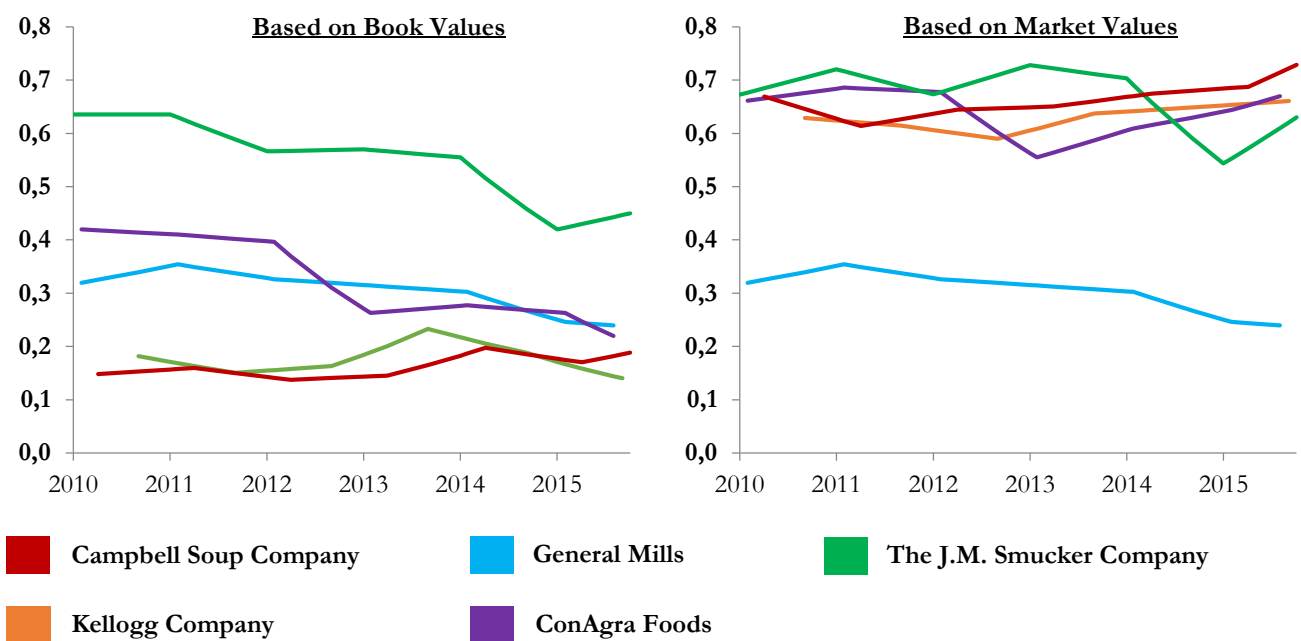
Source: Authors own compilation based on (Yahoo!, 2016; Campbell Soup Company, 2010 - 2015; Kellogg's, 2010 - 2015; General Mills, 2010 - 2015; ConAgra Foods, 2010 - 2015; The J.M. Smucker Company, 2010 - 2015)

In summary, the liquidity risk analysis yields contradicting results. The short-term liquidity analysis indicates a high risk compared to the peer group, however, that is most likely a result of supplier and buyer negotiations when it comes to payment period. The liquidity cycle is approximately 60 days, and has been so for several years, it therefore

---

[13] (BV) = book value

[14] (MV) = market value

appears to be an intentional strategy. The long-term liquidity analysis is based on book- and market values and has yielded opposite results. Where book values indicate a high long-term liquidity risk compared to peers, market values show Campbell holding the least risk associated with its long-term obligations. With Campbell being a publicly traded company, and has been so for many years, it is the authors view that market values are closer to the realizable value and hence depict a more accurate picture (Petersen & Plenborg, 2012, p. 158). The liquidity position is therefore viewed as strong in the short term and moderate in the short term. One should also note that Campbell does hold a revolver facility of $2 billion, which enables them to operate with a higher risk in the short-term as they can utilize the revolver facility in the event of unforeseen economic changes to the short-term environment.

5.4.2 Credit analysis

By calculating a range of financial ratios the authors assess the credit risk associated with Campbell as proposed by Standard & Poor's. The full overview as well as methodology applied can be seen in appendix 13. Each financial ratio, as depicted in table 4, has been rated on a range from "AAA" to "CCC", where "AAA" is a high rating meaning implied credit risk is perceived as low, while the opposite holds for the rating "CCC". A rating equal to or above "BBB" is characterized as "investment grade", while a rating below "BBB" is characterized as "speculative grade" (Petersen & Plenborg, 2012, p. 278).

Figure 31.   Credit Rating, Campbell & Peer Group
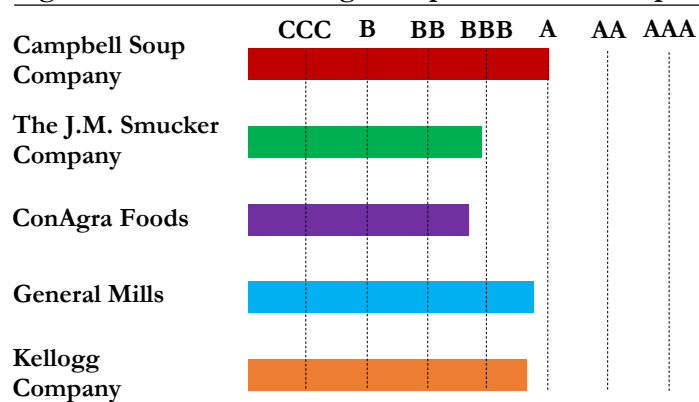
Source: Authors own compilation based on (Campbell's; Kellogg's; General Mills; ConAgra Foods; J.M. Smucker's latest Annual Reports, 2015/2016)

From table 4 it is apparent that the overall rating of Campbell has remained stable around "A", appendix 13 will show that the rating previously was "BBB" from 2001 to 2006, led by improving financial leverage and strong coverage ratios. A rating of "A" should be interpreted as Campbell having a strong capacity to meet its financial obligations, but at the same time vulnerable to adverse changes to the economic environment (Petersen & Plenborg, 2012, p. 278). According to Moody's approximately 12.9% of consumer product manufacturers hold an "A" rating while 32.6% hold a higher rating. In appendix 17 the authors have analyzed the credit risk associated to the peer group with the latest rating (based on latest annual report) being depicted in figure 31. The comparison shows that Campbell holds less credit risk compared to its peers, which is in line with the authors assessments. The credit rating, in large, confirms the results found in the liquidity analysis where the authors highlighted a strong long-term liquidity profile but a short-term liquidity strategy that leaves Campbell vulnerable to adverse shifts in their economic and operational environment.

Table. 4.   Credit Rating

	2010	2011	2012	2013	2014	2015	H1 2016
EBITDA Coverage Ratio	14.3	12.1	12.4	11.0	12.3	12.9	15.5
EBIT Coverage Ratio	12.0	9.9	10.1	8.0	9.8	10.1	12.8
Funds from Operation / Total Debt	0.21	0.18	0.18	0.12	0.17	0.15	
Free Operating Cash Flow / Total Liabilities	0.23	0.21	0.20	0.17	0.18	0.17	
ROIC (%)	21.2	19.2	17.7	17.4	13.3	12.8	
Gross Margin (%)	43.4	44.3	44.2	42.8	41.2	38.7	38.5
Long-term Debt / Total Capital	0.29	0.23	0.29	0.26	0.22	0.21	0.21
Total Liabilities / Total Capital	0.32	0.36	0.34	0.34	0.32	0.30	0.26
EBITDA Coverage Ratio	AA	AA	AA	AA	AA	AA	AA
EBIT Coverage Ratio	A	A	A	BBB	A	A	A
Funds from Operation / Total Debt	BB	B	B	B	B	B	
Free operating Cash Flow / Total Liabilities	A	A	A	A	A	A	
ROIC	A	BBB	BBB	BBB	BB	BB	
	AA	AA	AA	AA	AA	AA	
Gross Margin	A	A	A	A	A	A	AAA
Long-term Debt / Total Capital	A	AA	A	AA	AA	AA	AA
Total Liabilities / Total Capital	AA	AA	AA	AA	AA	AA	AA
Average Rating	**A**	**A**	**A**	**A**	**A**	**A**	**AA**

Source: Authors own compilation based on ratings and ratios from (Standard & Poor's, 2013)

6 SWOT

Table. 5.   Summary of strategic- and financial- analysis

	Strengths	Weaknesses	Opportunities	Threats	Economic Outlook
Macroeconomic					
Political & Legal	Highly adapted to GMO and additives regulations		Chinese policies regarding import of consumer goods are set to gradually become more lenient.	New regulations picking up speed to a point where Campbell can no longer adapt fast enough	**Positive (LT)**
Economic	Disposable income in emerging markets is growing rapidly. Increasing consumer confidence in Australia and China.	Slow growth in disposable income for main markets. The real effect of consumer spending expected to be flat in the U.S.	Increasing middle class in emerging markets. Population growth in the U.S. and Australia	Long term volatility in currency market is affecting Campbell's non-U.S. revenue	**Positive (ST-MT)**
Socio-cultural	Holds a portfolio of relatively healthy brands		Healthy food products are growing at 7% globally.	People are eating more out, and purchasing fully ready meals.	**Neutral**
Environmental & Technological			E-commerce can open up more direct sales channels. Social media enables a rapid environment for testing new product ideas.	Increased requirements to sustainable production.	**Neutral**
Industry specific					
Suppliers	Large pool of potential suppliers gives Campbell a strong bargaining position.			In the long term, raw materials may become scarcer due to natural conditions and growing populations. This would tilt the bargaining power.	**Neutral (MT-LT)**

Retailers	Strong brand portfolio and high customer loyalty makes products a mainstay in retailer's product mix.	Few retailers account for majority of sales and therefore hold a strong bargaining power.		Backward integration and a continuation of retailer's private label products gaining market share.	**Negative (MT-LT)**
Market positions	U.S. market leader in Soup and Australian market leader in Biscuits and Soup.	Main markets see loss of market share due to value driven consumer choosing private label offerings.	New growth segments such as baby food and fresh food still to reach maturation.	Price competition is fierce as it directly relates to shelf space and product turnover.	**Positive/Neutral (ST-LT)**
Company specific					
Profitability	Strong and stable profit margin in top quartile of peers	Stagnated sales growth, and sensitive to changes in profitability due to high degree of debt compared to peers		Higher pressure on margins from retailers, increasing prices on raw material	**Neutral (ST-LT)**
Liquidity risk	Strong liquidity in the long term, and a solid revolver	Higher short term liquidity risk than its peers, but not alarming	Negotiate longer payment periods with suppliers		**Negative/neutral (ST)** **Positive (LT)**
Innovation	A proven track-records of innovations				**Positive/Neutral (ST-LT)**
M&A experience	Balance sheet allows for M&A activity going forward	Lacks experience in post-acquisition integration	Strengthening of its brand portfolio within high-growth segments. Scaling new acquisitions	Megadeals and M&A activity by others would decrease Campbell's relative size and leave them with a diminished bargaining power with its retailers.	**Positive/neutral (ST-LT)**

Source: Authors own compilation

7 FORECASTING

In order to perform a valuation of Campbell an estimation of future cash flows must be performed, which is done through modeling a budget. Prior to structuring the budget, one must first determine the length and level of detail of the budget period. There is a trade-off between the length of the budget and the degree of accuracy. Longer forecast periods tend to lose some of its substance and credibility, as detailed projections of cash flow far into the future are hard to predict. For mature companies, with short-term growth rates close to the long-run growth rate, the forecast horizon is typically shorter than for premature companies, which usually exhibit higher and more volatile growth rates. Campbell enjoys somewhat stable growth and margins, causing the historical profitability to likely serve as a stable proxy for future returns. The chosen forecast period spans from 2016 to 2025, but has been split into three parts. The first four years represent a comprehensive budgeting based on the strategic and financial analysis of Campbell, the last two years represent the terminal period, while the period in-between is a top level forecast where all items are converging towards their terminal period forecast.

Two-stage valuation models like the DCF and EVA model assume a constant growth in the terminal period. The terminal period should theoretically reflect a "steady-state", at which the company is matured in terms of growth, and this growth should reflect the expected weighted average long-term growth of the markets at which Campbell's operate. It is also important to remember that as the long-term growth continues into perpetuity (Gordon, 1962), a growth rate exceeding the economy as a whole would implicitly project that the company would continuously outgrow the market into eternity and eventually completely take over the whole market.

Moreover, the forecasting model is based on a sales-driven approach, as almost every line item is directly or indirectly influenced by changes in revenue. The authors believe this approach offers the best compromise between the degree of activity of the company and the related expenses and investments, such that, for example COGS will be expressed as a percentage of the expected level of activity, represented by total net sales (Koller, Goedhart, & Wessels, Valuation, Measuring and managing the value of companies, 2010, pp. 188-189).

As described in the strategic analysis, there are several uncertainties regarding the future of the packaged food industry, and to account for this uncertainty, the authors conduct three different budget scenarios. The three cases represent different levels of possible revenue, and include a "Base", "Bull" and "Bear" case. The probability of each case determined on the basis of our individual perception, which is a "best guess" approach. These cases are meant as guidance, and to illustrate the fact that Campbell's future earnings are sensitive to changes in the industry.

7.1 REVENUE GROWTH FORECAST

The following section describes the rationale behind the sales forecast of the base case. Furthermore, the section focuses on the U.S. and Australian market as these represent more than 90% of the firm's revenue. Each market has been segmented into the same segments applied in the strategic analysis. This segmentation is not correspondent with that of Campbell, who reports their operation according to business units, but splits the revenue into product segments that are correspondent with retail categories. The segmentation is a product of

approximation, utilizing detailed retail market statistics of Campbell provided by Euromonitor, the approach is further explained in appendix 9. The advantage of this approach is that it allows a more direct link with the findings from the strategic analysis and the market trends, the weak-link is that it assumes that the nominal retail sales distribution of Campbell products is equal to that of Campbell's sales distribution to retailers. This risk is impossible to quantify due to lack of data, but the sales margins of retailers are presumed to be low, as volume and turnover are more important parameters of their business model, the error margin of our estimation approach is therefore presumably small.

7.1.1 The U.S.

The U.S. market represents north of 80% of Campbell's revenue and is therefore a core market to budget. Campbell operates in ten overall segments, some of which are perceived as stable cash cows while others represents new ventures and high growth segments.

7.1.1.1 Soup

From 2006 to 2008 Campbell's growth within the U.S. soup segment was almost identical to the overall market growth. From 2008 both the overall market and Campbell experienced negative growth which flattened in 2010. After a period of sluggish growth between 2008 and 2010, Campbell experienced a continued three-year period of declining growth that eventually flattened out. In the same period the overall market continued to further outgrow Campbell, a growth that can partially be explained by the increasing presence of PL's in this segment. Soup is Campbell's flagship product line and the origination of their brand value, the segment represents 32% of their U.S. revenue and 25% of their total revenue. Consequently, sluggish growth and the loss of market share in this segment have a strong effect on Campbell's financial performance. As a consequence of the financial crisis, products with a value offering have done very well, explaining the strong growth in private labels. The authors expect the growth of private labels to saturate in near future as the U.S. economy continues to improve. The authors expect that as consumer purchasing power increases name brand products should regain some of their lost market share.

Projected Sales Growth in U.S. Soup segment

	2016	2017	2018	2019	2020
Soup	3.0%	2.4%	2.1%	2.7%	2.7%

Source: Authors own compilation

7.1.1.2 Biscuits & Snacks

Since 2008, Campbell has outgrown the overall U.S. biscuits and snacks market substantially. The favorable growth is partially due to a series of acquisitions, which have strengthened Campbell's portfolio within the segment, which now accounts for 16% of total revenue and 20% of U.S. operations. The organic growth is not possible to estimate, the acquisitions kicked off at a progressive growth rate, which has since flattened, and is now currently in-line with the growth of the overall market, and expected to remain at this level.

Projected Sales Growth in U.S. Biscuits & Snacks segment

	2016	2017	2018	2019	2020
Biscuits & Snacks	2.2%	2.4%	2.8%	3.0%	3.0%

Source: Authors own compilation

7.1.1.3 Sauces, Dressings etc.

The segment represents around 14% of Campbell's revenue and is expected to increase to 15% by 2020. From 2009 to 2012 Campbell experienced a dip in its growth rate compared to the overall market. In recent years however, the growth has picked up from its low point and is currently almost tangent with the growth rate of the overall market. The authors expect this trend to continue up until 2019, at which point Campbell should have regained market shares. From 2019 and onwards the growth is expected to be in-line with the market.

Projected Sales Growth in U.S. Sauces, Dressings etc. segment

	2016	2017	2018	2019	2020
Sauces, Dressings etc.	4.0%	4.0%	3.5%	2.9%	2.9%

Source: Authors own compilation

7.1.1.4 Baked Goods

The baked goods segment represents 10.8% of Campbell's revenue and the expectation is that this segment distribution will develop relatively flat. Campbell's growth within the baked goods segment has been somewhat of a rollercoaster since 2006, some years seeing growth of more than 8% led by negative growth the following year. More recently the volatility has declined and growth appears more stable. In general, the growth has been below the overall market, but growth is now very much at par, partially due to acquisition activity in recent years, and the growth is expected to remain in parallel with market trends.

Projected Sales Growth in U.S. Baked Goods segment

	2016	2017	2018	2019	2020
Baked Goods	2.6 %	2.7%	3.0%	3.0%	3.0%

Source: Authors own compilation

7.1.1.5 Juice

Apart from a period between 2007 and 2011, in which Campbell experienced a slightly slower growth, the juice segment has in general delivered strong growth for Campbell compared to the overall market. The increase was significant in 2011 and 2012, partly due to Campbell's acquisition of Bolthouse Farms. Through the acquisition Campbell managed to widen its portfolio in the beverage segment with "super-premium" juices, smoothies and protein shakes. Campbell's other products within the juice segment are primarily within the "high-end" product class, appealing to customers with a preference for healthy and organic beverages, which in term makes it more resistant against private label competing products. With the general segment seeing no growth in recent years and the expectations indicating slow to no growth, it is clear that Campbell's performance is led by product innovation and acquisitions, which in turn has increased their market share. With that in mind, it is still the authors' opinion that Campbell would continue to enjoy a solid advantage in terms of their strong brand portfolio, with brands like V8 etc., which hold a very distinct perception. The U.S. juice segment is therefor expected to continue contributing 8% to 9% of total revenue. As Campbell is not expected to engage in M&A activity in the base case scenario, and since the massive growth from 2011 to 2012 has flattened to a level close with the market growth, the growth of this segment is forecasted to be 1.4% on average, equal to the industry average.

Projected Sales Growth in U.S. Juice segment

	2016	2017	2018	2019	2020
Juice	**0.0 %**	**1.1%**	**1.5%**	**2.1%**	**2.1%**

Source: Authors own compilation

7.1.1.6 Ready Meals

The U.S. ready meal market has been sluggish since 2007, with a compounded growth p.a. of less than 1% over the last eight years. In the same period Campbell has been unable to keep its own growth rate on the plus side, and instead experienced a massive decline. The poor performance cannot be explained by any disinvestments, but rather by Campbell's inability to compete, hence their loss of market share. The segment represents just above 1.2% of their total revenue and Campbell has naturally focused their effort on higher growth areas with more scalability. The overall market for ready meals is expected to see a stronger growth going forward, and the authors believe Campbell will strengthen their competitiveness through marketing in order to not be left behind when growth picks up speed. A growth rate 50 basis points below the overall market growth is perceived as a probable performance going forward.

Projected Sales Growth in U.S. Ready Meals segment

	2016	2017	2018	2019	2020
Ready Meals	**1.2 %**	**2.1%**	**2.2%**	**2.1%**	**2.1%**

Source: Authors own compilation

7.1.1.7   Baby Food

Campbell entered the U.S. baby food segment in 2013 through its acquisition of Plum Organics, a leading manufacturer of premium organic food, baby food and snacks. The segment represents 1.1% of total revenue and has outperformed the overall market. The authors expect this trend to continue for the next few years as the segment enjoys the perks of a larger organization and experiences more scale.

Projected Sales Growth in U.S. Baby Food segment

	2016	2017	2018	2019	2020
Baby Food	1.2 %	2.1%	2.2%	2.1%	2.1%

Source: Authors own compilation

7.1.1.8   Processed Meats and Seafood

The overall market for processed meats and seafood has seen strong growth, with low volatility since 2006. Campbell however has strong negative growth. The simple meals business in Europe was divested in 2013, the largest drop in this segment also occurs from 2012 to 2013. Hence, there might be some negative spillover effects from the European divestment that are at play, but this is difficult to determine. One example could be that some of the U.S. sales were of products and brands that originated from their European business unit, and as that was divested, those products had to be discontinued. The U.S. segment for processed meats and seafood represent 1.1% of revenue, the large changes within this segment make it difficult to forecast, but with Campbell now having had some years to recoup from the organizational change in 2013 it is the assessment of the authors that this segment will continue to grow with the general market.

Projected Sales Growth in U.S. Processed Meats and Seafood segment

	2016	2017	2018	2019	2020
Processed Meats & Seafood	1.2 %	2.1%	2.2%	2.1%	2.1%

Source: Authors own compilation

7.1.1.9   Ice Cream & Frozen Desserts

Campbell's growth within the segment was in line with the general market until 2013. From 2013 to 2015 the segment has experienced a sharp decline, however the exact cause is unknown. The segment represents less than 1% of total revenue where it experienced a sharp decline. The exact reason unknown, but Campbell has communicated that they are changing recipes, shifting to organic ingredients, such a shift is costly and also means a re-branding of these products which may not target the same consumer base. It is the perception of the authors that the segment is likely to grow 50 basis points below the general market during the forecasting period.

Projected Sales Growth in U.S. Ice Cream & Frozen Desserts segment

	2016	2017	2018	2019	2020
Ice Cream & Frozen Desserts	1.2 %	2.1%	2.2%	2.1%	2.1%

Source: Authors own compilation

7.1.1.10   Rice, Pasta & Noodles

In this segment Campbell has experienced a negative growth almost equal to the positive growth of the overall market. With no clear causes for why the segment is suffering so much it is difficult to picture a very positive scenario. The segment only represents 0.26% of total revenue, as such it could be a prime candidate for a divesture should the performance continue its current trend. The authors forecast a continued sub-par performance of 150 basis points below the general market growth.

Projected Sales Growth in U.S. Rice, Pasta & Noodle segment

	2016	2017	2018	2019	2020
Rice, Pasta & Noodle	1.2 %	2.1%	2.2%	2.1%	2.1%

Source: Authors own compilation

7.1.2   Australia

The Australian market represents 8% of Campbell's revenue, Campbell holds strong positions in the market when it comes to its soup- and biscuits & snacks- operation. The Australian market has in general been weak the last few years, a weakened Australian economy has led to reduced spending on name brand products, on top of that the Australian dollar has depreciated substantially. Campbell is active in five segments in the Australian market.

7.1.2.1   Soup

The Australian soup segment represents 0.5% of total revenue, in 2015 that amounted to $43 million but in 2010 Campbell actually saw sales of more than $100 million in this segment. This has been the general trend in the Australian market. If we look at the trend adjusted for currency fluctuations, the last three years has yielded a total decline of 33.5%. Euromonitor numbers show an expectation towards positive growth the coming years, but that does not necessarily apply to Campbell as their products belong to the "premium" category. It is therefore the assessment of the authors that the segment will see flat growth the next couple of years before growing together with the market. In the U.S. market, after the financial crisis "premium" products were still lagging its "value" counterparts, the authors expect this to hold for the Australian market as well.

7.1.2.2   Biscuits & Snacks

The segment represents Campbell's largest operation, and its substantial market share is mainly due to its acquisition of Arnott's in 1992. The segment generates 6.2% of Campbell's revenue and is an important revenue

stream. Unlike the soup segment, biscuits & snacks has seen positive growth. The growth has been slightly lower than the general market since 2012. As an established brand that holds a leading market position, (see appendix 5) the authors expect this segment to perform in accordance with the overall market.

7.1.2.3   Sauces, Dressings etc.
Campbell's growth within this segment has been strong compared to the market, but is expected to converge once Campbell has reached a reasonable market share. The growth going forward is therefore estimated to lay between 4.4% and 4.6% from 2016 and 2019, which a 100 basis points above expected growth for the market, but substantially below the ten-year average growth of 8.8%. In 2019 the growth is expected to converge to market trend.

7.1.2.4   Baked Goods
Campbell's growth within the Australian baked goods segment followed the market up until 2010. In the following two years Campbell's managed to double their market share, partially due to the Pepperidge Farms acquisition of Ecce Panis, a leading producer of premium-quality artisan breads. Campbell's extraordinary growth momentum gained from the acquisition wore off in 2012, and the company experienced a slight decline in 2013. The growth rate is now tangent with that of the market, and expected to remain so going forward.

7.1.2.5   Juice
Campbell's growth within the Australian juice segment was just above the market rate until 2012, when Campbell managed to boost its growth through the acquisition of Bolthouse Farms, a market leader in manufacturing and distributions of super-premium juices, smoothies, protein shakes and café beverages, which resulted in a sharp increase. As of 2015, Campbell's growth is more in line with the overall market, and estimated to follow the general market which holds a growth rate close to zero.

7.1.2.6   Other countries
Campbell's combined revenue growth from other countries is hard to estimate as markets are fragmented, spread out geographically, and due to currency volatilities. What is known is that Campbell's focus will be on growing Asian economies like Malaysia and especially China. The authors use expected growth in consumer expenditure as a proxy for growth in these markets as estimated by OECD (see appendix 6).

7.1.2.7   Terminal growth
In its 2015 annual report Campbell lowered its long-term sales growth from 3%-4% to 1%-3% due to slow growth in the U.S. It is the assessment of the authors that Campbell should be able to continue with a terminal growth of 2.6%, which has been their average for the last 15 years. Achieving such growth is likely difficult through its U.S. operation without extensive M&A activity. In the short term other markets show high local growth but that is being evaporated by currency fluctuations, in the longer term however, if Campbell is able to utilize its organization to grow abroad, it should be able to achieve such a growth as some of these markets are growing at north of 5% per annum.

7.2   COST STRUCTURE FORECAST

This section describes the forecast of the main cost structure items, which are COGS and the various other operational expenses. COGS are by far the largest incurred cost, but is also highly affected by external factors as discussed in section 3 & 4 The various other operational expenses are undergoing vast organizational change and are part of Campbell's latest cost-cutting initiative which seeks to find a saving of $300 million in yearly expenses (Campbell Soup Company, 2015a). The full overview of the cost forecast, for all scenarios, is found in appendix 19 and 20.

7.2.1   Campbell's Cost Cutting Initiative

Campbell's announced and launched its cost cutting program in early 2015, with the aim of slashing a yearly cost of $250 million over a three-year period, ending 2018. The program emphasizes on streamlining operations, making them more agile and able to cope with rapidly changing consumer trends that are stifling the packaged food industry's sales growth. A clear part of this was the organization change of its business units, which previously was split in five segments but now is split into three (Campbell Soup Company, 2015a). The initiative is deemed the most aggressive cost cutting move in the company's long history, and will be executed by "trimming" management and by introducing a new accounting routine. The new internal accounting system builds on so-called zero-based budgeting which requires departments to justify spending without leaning to historical trends (The Wall Street Journal , 2015).

After its first year the cost cutting program proved more effective than first anticipated, delivering $80 million in cost savings, which led Campbell to increase its 2018 target from $250 million to $300 million. In the base scenario, expectations are in line with those communicated by Campbell. In 2016, the estimated cost savings is $150 million which is equal to 1.8% of estimated total sales. These cost savings are deducted from "marketing and selling expenses", "administrative expenses", "research and development expenses", and "other expenses" in weighted maneuver, such that 54.6% of the $150 million are subtracted from "marketing and selling expenses", since this accounting item accounted for 54.6% of the costs associated with the cost cutting initiative.

7.2.2   Cost of Goods Sold

Over the past 15 years COGS have on average stood for 55.8% of total sales. The development however, has been upward sloping with COGS equal to 49.7% in 2001 and 61.5% in 2015. The strategic analysis assessed that Campbell holds a strong position with its suppliers, and the cost of raw materials have not increased in this period. The likely cause is that margins have been reduced as the competition from the low price category has increased since the financial crisis. Although the authors expect the U.S. economy to grow in coming years, it is difficult to picture a scenario where Campbell can negotiate higher margins as the retail industry holds a strong bargaining power (see section 4.2). The assessment is however that the gross margin will increase slightly, but the authors believe this will be possible through developing and re-branding new quality products with higher margins within their high growth segments such as healthy and organic alternatives, something Campbell is doing (Campbell Soup

Company, 2015a). The base case hence expects Campbell to operate at gross margin of 38.5% for the next few years which will gradually increase to around 41% in the terminal period.

7.2.3 Marketing & Selling Expenses

Where COGS have seen an upward sloping development, marketing and selling expenses have seen the opposite, with 2001 accounting for 15.4% and 2015 accounting for 10.9%. Over this 15-year period the average has been 14.4%, and going forward the author's believe in Campbell's ability to cut future marketing and selling expenses through its cost cutting program, resulting in a slight estimated decrease in the budget period, from 9.9% in 2016 to 9.4% in 2025. Marketing initiatives are increasingly being executed through online channels, such as social media and proximity networks (see section 4.1.4). This allows for more effective marketing and is also cost effective. Campbell has shown to be good at implement and actively use such channels, which is why we expect Campbell to stay at the low level around 10% of sales for all scenarios.

7.2.4 Administrative Expenses

Administrative expenses have generally seen a flat development over the past 15 years, representing 7% in 2001 and 7.3% in 2015 of total sales. The 15-year average is 7.6%, with its highest values being around 8% of total sales. Administrative expenses in the second largest expense that is part of the cost cutting program, and is a clear target area as Campbell re-organizes its business units. With the full re-organization taking effect in 2015, the expense is expected to represent a smaller share of total sales.

7.2.5 Research & Development Expenses

Research and development expenses have on average laid around 1.4% of total sales. From 2001 until a few years ago, the trend was upward sloping, but in the last three years the cost has remained stable around the historical average. As revenue is expected to grow further in the next years it is the assessment of the authors that R&D represent a smaller fraction of revenue, also affected by the cost cutting initiative. The result is a forecasted development that sees the cost item reduced by 10 basis points each year as a percentage of total sales until 2018

7.2.6 Other Expenses

Other expenses have been relatively volatile over the past 15 years, but due to the small magnitude of this cost, equaling only 0.3% of total sales on average, the changes have had an insignificant impact. The cost is part of the cost cutting program, but most cost cuts are expected to be materialized in other areas, so "other costs" change relatively little and is estimated to lay between 0.25% and 0.27% in the base scenario.

7.2.7 Restructuring Charges

Like "other expenses" restructuring charges has been relatively volatile over the past 15 years. Restructuring charges are generally not a continuous expense, but rather an expense depending on the level of restructuring and changes in the firm's operations and management. The 15 years' historical average therefore serves as the best proxy for future estimation, but the restructuring charges associated with the cost cutting program also needs to be accounted for, which is why the restructuring charges is set to 1.3% of total sales until 2018, before converting towards the 15-years average of 0.4% over the course of the budget period.

7.2.8   Summary

The forecast is fairly optimistic but the general assessment of Campbell also shows a company that consistently has held very good margins and been able to manage costs. Their gross margin is one of the highest compared to peers, and although the EBITDA margin has been decreasing slightly Campbell is performing very strongly compared to its peers. The real issue for Campbell has been their lack of growth, the authors however believe that growth is coming and that the company is positioning themselves very well in new segments. When Campbell starts to see growth it is unlikely that costs will begin to increase at a higher pace than sales, one aspect is that the industry is all about scalability and such a development would defeat the effect of scale. Another factor is that Campbell historically has been a top performer when it comes to managing costs, their new initiative is exceeding expectations, so there is a strong history in being able to reduce costs and keep them there.

Figure 32.   Historical and Forecasted development of Cost Structure metrics
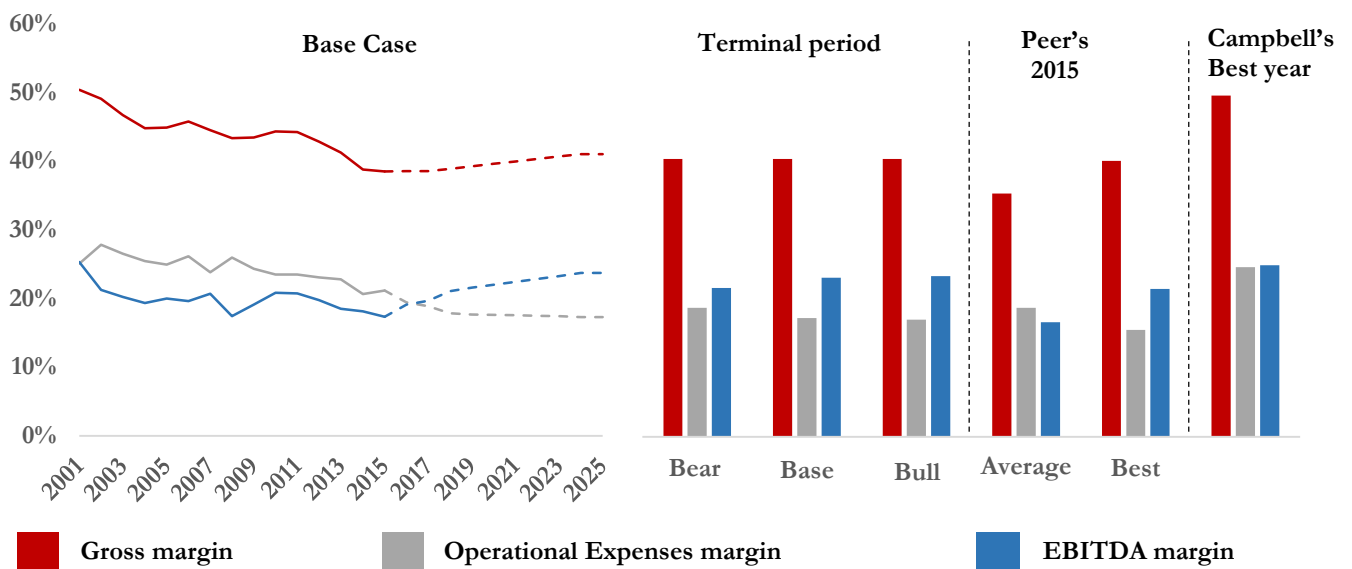
Source: Authors own compilation based on own assessment and (Campbell Soup Company, 2001-2015)

8 VALUATION

This section lays forth the authors assessment of Campbell's value through a discounted cash flow model analysis (DCF) and by looking at peer group valuations & transactions, in order to help determine if Campbell is undervalued sufficiently to support a buy-out. The DCF and supporting enterprise value added model can be found in appendix 28 and 29. In order to perform a DCF analysis the cost of capital is determined in section 7.1. The full results of the estimation of cost of capital and the valuation are presented in appendix 23 to 27.

8.1 COST OF CAPITAL

When estimating the enterprise value of a firm, the free cash flows are discounted to their present value using the weighted average cost of capital (WACC). The WACC should take into account the opportunity cost faced by investors from choosing a single asset versus other assets with similar risk profiles (Koller, Goedhart, & Wessels, Valuation, Measuring and managing the value of companies, 2010, p. 235). The following section analyzes each component and sub-component that is applied in order to derive the WACC. The section intends to apply the authors knowledge of Campbell to establish a WACC that correspond to the perceived risk profile of Campbell, the parameters are however difficult to "set in stone" as most are open to interpretation. The authors therefore perform a Monte Carlo simulation of the WACC based on theoretically justifiable components, the results are found in the concluding part of this section, while a more detailed description can be found in appendix 27.

8.1.1 The Weighted Average Cost of Capital

The general concept of WACC's is that investors and debt holders take on different risks. Their risk is depicted in the premium they ask above the risk free rate. They require different risk compensation because their return structure is substantially different. For example, in the case of a default, debt holders receive compensation ahead of shareholders, making their risk lower. As a result, the WACC estimate is a weighted average of the two risk profiles (Petersen & Plenborg, 2012, p. 246).

Eq. 11. $$WACC = r_E \cdot \frac{E}{(NIBD+E)} + r_D \cdot (1-\tau) \cdot \frac{NIBD}{(NIBD+E)}$$
$where$: r_E $is\ the\ cost\ of\ equity$, r_D $is\ the\ cost\ of\ debt$, τ $is\ the\ marginal\ tax\ rate$

The estimation of WACC is in many cases estimated arbitrarily. Surveys have shown that there is no real consensus regarding the methodical choices made for the sub-components. A study from 2013 found 103.680 different justifiable calculations for WACC (Bancel, Lathuille, & Lhuissier, 2013). The same report used the different possibilities for three companies and found a span for all of them between 5% and 10%. A similar study published in the Harvard Business Review, in collaboration with the Association of Financial Professionals in the US suggests the same (Jacobs & Shivdasani, 2012). This is a problem because it likely leads to either overestimation or underestimation of the cost of capital, which respectively leads to lost profits and negative returns. To get a true picture of the WACC, or the range of WACC likely used by investors, we will collect different estimates for all sub-components and perform a Monte Carlo simulation on the WACC. This will yield a justifiable range that we will apply in the sensitivity analysis of our discounted cash flow model. The WACC has such a large impact on

your final valuation when applying a DCF model that it is ludicrous not to take into account all the different perspectives of this parameter and its sub components.

8.1.2 Cost of Equity (r_E)

The capital asset pricing model is recommended by financial literature (Petersen & Plenborg, 2012). We will not go into detail of the theoretical assumptions underlying this model as it is outside of the scope of this analysis (Pratt, 2002, pp. 77-78). The following formula has been applied to estimate the return on equity:

Eq. 12. $$r_E = r_f + \beta_e \cdot (r_m - r_f)$$

Eq. 12 highlights the equilibrium between a firm's risk premium and the general risk premium of the market. The three components that make the cost of equity are assessed in the following sections.

8.1.2.1 The risk free rate (r_f)

The concept of a risk free rate is a core foundation for financial theory, used in all valuations from different financial instruments (e.g. options, swaps, bonds etc.) as well as securities. A risk free asset can be defined as something were the return is known with full certainty. That means no default risk and no risk regarding reinvestment rates (Damodaran, Security Analysis for Investment and Corporate Finance, 2006, p. 35). The practical proxy for such assets are highly liquid, long maturity, government bonds denoted in the same currency as the cash flows of the asset to be analyzed (Koller, Goedhart, & Wessels, Valuation, Measuring and managing the value of companies, 2010, p. 237).

In today's world, one can argue that government debt is not risk free, government debt is constantly increasing and several countries have been on the brink of default lately (e.g. Greece and Cyprus). The general norm is using government bonds (Petersen & Plenborg, 2012, p. 249), analysts and asset managers use anything from 2-year to 30-year bonds as the risk free rate, all justifiable, but add confusion as to the appropriate risk free rate.

Figure 33.   U.S. Treasury Rates - Risk Free Rate
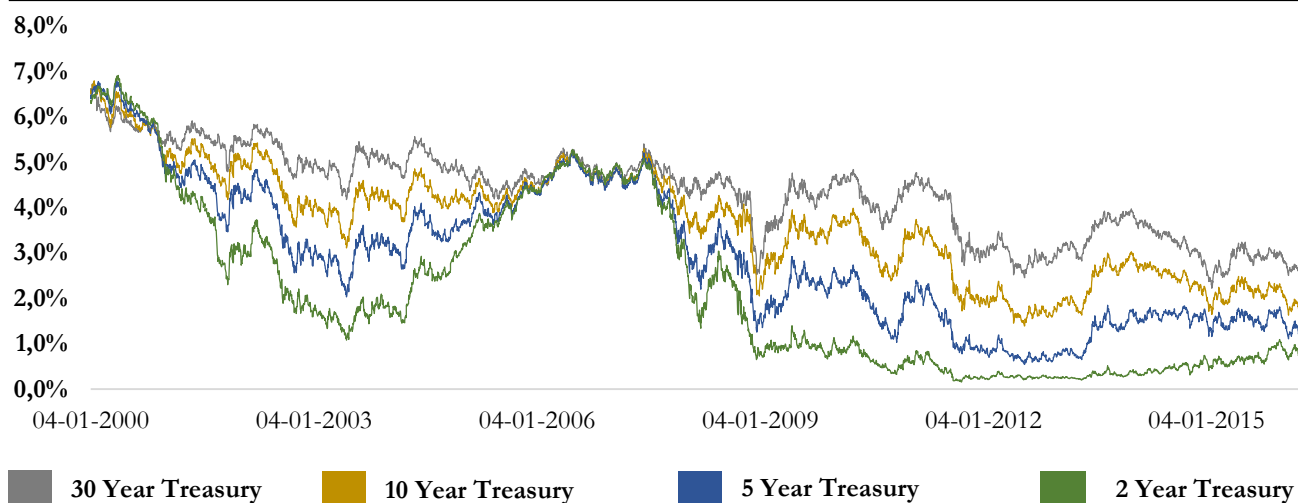
Source: Authors own compilation based on data from the (U.S. Department of the Treasury, 2016)

In figure 33 we have shown the historical rates for US treasuries. In the beginning of the series the different maturities have rates very close to each other, but for a majority of the time period the rates are substantially different. The difference between 2-year and 30-year U.S. treasuries is 1.9%, as of 26/04/2016, such a difference will undoubtedly lead to very different WACC.

Financial literature recommends using bonds with long time to maturity, because the time horizon in valuations is infinite. However, according to an article in the Harvard Business Review industry practice ranges from 90-days to 30-years, some 46% use 10-year rates (Jacobs & Shivdasani, 2012). The argument for using 10-year rates instead of 30-year rates is that longer maturities face a higher risk of illiquidity, which might affect the yields (Petersen & Plenborg, 2012, p. 251). Ibbotson Associates, which is widely used by practitioners, therefore uses an interpolated yield for a 20-year bond as the basis for their risk free. Since the 10-year rate is the most widely used risk free rate, and the one recommended by financial literature, this is applied in the base scenario. As of 26-04-2016 the rate was 1.9%. The large spread will however be applied in the sensitivity analysis.

8.1.2.2   Systematic risk (β_e)
The covariance between a company's share price return and the overall market return is used as a risk measure, mostly referred to as the company beta or systematic risk. The higher the measure the higher the associated risk, which leads to a higher required return on equity (Petersen & Plenborg, 2012, p. 251). Historical beta's can be sourced from different sources such as *Bloomberg, Thomson Reuters, Damodaran, Yahoo Finance, Google Finance* or other databanks. All of the mentioned calculate their beta based on historical data. As the beta used is a forecast, many investors also follow the Michael E. Blume principles for adjusting betas, the assumption is that in time a company beta will move closer to one.

8.1.2.2.1   *Estimating Beta using regression analysis*
The beta for Campbell and its peer group have been calculated using the ordinary least square method (OLS), with full results depicted in appendix 23. This is a standard model for calculating historical levered betas (Koller, Goedhart, & Wessels, Valuation, Measuring and managing the value of companies, 2010, p. 249). The calculations in appendix 23 are performed using monthly returns over different time horizons spanning from one to five years.

Eq. 13. $R_i(t) = \alpha_i + \beta_i R_m(t) + \varepsilon_i(t)$

The issue with beta estimation is that it is very much open for interpretation. Such as the time period, the frequency of returns, the choice of market portfolio and whether or not to adjust your beta for instability over time. Arguments for choosing a short and long time period can both be found. The wider your time period the smaller your standard error will be, yielding a more statistically significant beta estimate. On the other hand, historical values are no guarantee for future accuracy. Some therefore argue that shorter time periods are better, regardless of the higher standard errors, because they are a better indication of the current state of a company. If we look at the larger databanks such as *Thomson Reuters* and *Yahoo Finance* they will calculate beta using different time periods, respectively five- and three-year data. Betas therefore differ substantially both across data providers and

investment professionals, the beta for Campbell was for example, as of 27/04/2016, 0.37 according to Thomson Reuters while Yahoo Finance reported a beta of 0.29.

The regression betas have subsequently been unlevered using the average debt-to-equity ratio for the given time period and then re-levered with the expected debt-to-equity ratio. This method is different than that which is practiced. Commonly, betas are unlevered using the current debt-to-equity, however, matching the time horizon of which the beta is estimated with that of the firm's debt-to-equity ratio is a more mathematically correct approach according to the authors. The approach was confirmed as technically correct through email correspondence between the authors and Professor Aswath Damodaran (see appendix 24). The general formula for un-levering is shown below:

Eq. 14. $$\beta_U = \frac{\beta_L}{1+(1-T_c)*\left(\frac{D}{E}\right)}$$

Using the average debt-to-equity ratio, four unlevered betas for Campbell are calculated, one for each time period of which we have regressed the share price against the NYSE. This yields a range from 0.29 to 0.44 (see appendix 23).

8.1.2.2.2 Beta from comparable companies

Financial literature recommends taking the average unlevered beta of your peer group and re-lever with the current debt-to-equity ratio (Rosenbaum & Pearl, 2013, p. 164). The full overview of peer group betas is depicted in appendix 23. The re-levered beta ranges from 0.31 to 0.41, where the five-year beta is determined at 0.39.

8.1.2.2.3 Adjusting Your Beta

In 1975 Marshall E. Blume published an article in the journal of finance where he discussed the tendency of beta's to converge towards the "grand" mean of all beta's, which is one (Blume, 1975). Today that concept is used by several databanks, including *Bloomberg* and taught in most finance books and classes. As such, it is something that should be analyzed. Discussing the concept of converging betas is outside of the scope of this paper. Nonetheless, it is a concept that is widely used and is therefore incorporated in the analysis. Adjusting the peer group beta range yields a range from 0.54 to 0.61 and a beta of 0.6 when applying five-years of data (see appendix 23).

Eq. 15. $$\beta_{Blume_{adj}} = 0.67 \cdot \beta_{levered} + 0.33$$

8.1.2.2.4 Beta range going forward

Some literature suggests that one uses the average from the peer group, as the safest assumption is that the company being analyzed, over time will revert to the industry mean (Petersen & Plenborg, 2012, p. 254). In addition, it is also sometimes suggested that the beta is adjusted according to Blume's principle. The result is a wide range of justifiable and applicable betas. Going forward, it is the opinion of the authors that a beta of 0.60 is applicable in the base case, while the full range is applied in the sensitivity analysis, the range is hence set at 0.31 to 0.61. A beta of 0.60 represents the five-year Blume adjusted estimated peer group average and is therefore in accordance with what is commonly practiced (Rosenbaum & Pearl, 2013, p. 147; Blume, 1975), the beta of

Campbell has been in the lower end of the range the last five years, the authors hence expect a convergence towards the industry mean.

8.1.2.3   Market risk premium $(r_m - r_f)$

The risk premium for equities is an important component of the return on equity. Common practice is to use historical risk premiums, which is the difference between market returns and risk free government bonds (Petersen & Plenborg, 2012, p. 263). Just like when estimating beta, the same issues arise as to what period and market return proxy to use. Market returns naturally fluctuate from year to year, and the longer the time period applied, the less current our result will be. *Aswath Damodaran* finds in his article "Equity Risk Premiums" that you need more than 20-years of data to achieve results that have a standard error that is less than your actual risk premium estimate. That is a large cost to pay to get a "current" estimate (Damodaran, Equity Risk Premiums). As a consequence, this paper solely applies risk premiums gathered through research and surveys. Looking at data from 1962 until 2000 yields an equity risk premium that ranges from 4.52% and 6.42%, the difference is due to using arithmetic and geometric means, as well as using different maturities for risk free rate. It is interesting to note how flawed this approach actually is, is it a safe argument that risk premiums over time do not change? (Damodaran, Equity Risk Premiums). In 2013, a survey on market risk premiums and risk free rates used by professors and financial and non-financial practitioners found that an average risk premium of 5.7% in the US, but a range from 2.5% to 15.8%

Assessment of Cost of Capital

	r_f	**+**	β_e	**✕**	$(r_m - r_f)$	**=**	r_E
Minimum	0.86%		0.31		5.00%		2.81%
Maximum	2.76%		0.61		5.70%		6.24%
Base case	1.94%		0.60		5.35%		5.15%

Source: Authors own compilation

(Fernandez, Aguirreamalloa, & Linares, 2013). Both *Fernandez* and *Damodaran* operate with a suggested equity risk premium of 5.7% and 5.0% respectively. Although they both have relatively similar averages, there is a clear difference: *Damodaran* has calculated the historical risk premium while *Fernandez* article is a survey. Given the earlier discussion of how practice differs widely and is extremely arbitrary we will only use the range sourced from *Damodaran*, applying *Fernandez* survey range would yield a very wide range and we fail to see the value in this for our analysis. The results also coincide with those of Koller et al. (2010) who finds that the market risk premium usually lies between 4.5% and 5.5% (Koller, Goedhart, & Wessels, Valuation, Measuring and managing the value of companies, 2010, p. 238). The base case applies the average of *Damodaran's* and *Fernandez's* result.

8.1.3   Cost of Debt (r_D)

The return on debt is the required return creditors want in exchange for lending funds to a company. Two risks apply, financial and operational. The rate consists of two parameters, the risk free rate and the credit spread. As a large company, Campbell has a variety of debt categories depending on differences in seniority and maturity (Pratt, 2002). As of April 2016 Campbell holds a revolver credit line of $2.2B and seven bonds with a total outstanding of $2.55B (see appendix 25). While the corporate bonds are all fixed coupons with varying maturities from 2017 till 2042. The one-year revolver has a credit spread of 100bp above LIBOR, which currently is 1.24%. The current average yield is 3.96% (not including the revolver credit line) and represents a small spread above the ten-year treasury of 1.94%. How the cost of debt will change in the coming years is difficult to predict, the base rate of either LIBOR or U.S. Treasury rates will likely increase, this is at least the signals by the U.S. Federal Reserve. Since most of the debt is fixed the cost will not change dramatically, another factor is that most of the debt have relative long maturities and therefore do not need to be rolled-over for quite some time, the weighted average maturity is in year 2024. The impact of increasing rates will therefore affect new debt and the revolver loan only. The base case therefore utilizes the current average yield of 3.96% as cost of debt, while an assumption of increasing cost of debt has been applied for the Monte Carlo simulation. More specifically, the Monte Carlo simulation incorporates an increasing yield of up to 50bp per year. With the indications from the U.S. Federal Reserve being that interest rates will increase in the future together with a recovering U.S. economy, the authors deem it appropriate to include the possibility of increases to the risk free rate and the cost of debt.

8.1.4   Tax rate (τ)

The Federal tax rate in the U.S. is 38%, we are however using the historical effective tax rate from Campbell's annual reports. We believe this is better because the actual tax paid is a combination of different tax rates due to different tax in different states and tax on different forms of financial instruments and operations. The effective tax rates have on average been 34%. We cannot in any meaningful way justify using a changing set of tax rates and will therefore use the historical average in our estimation.

8.1.5   Capital Structure

A firm can adjust capital structures by repaying or borrowing capital, borrowed capital can in terms also be applied to share buybacks, the common denominator however is that all such activity is executed at market value. The capital structure must therefore be founded on market values (Koller, Goedhart, & Wessels, Valuation, Measuring and managing the value of companies, 2010, pp. 262-265).

The proposition by Modigliani Miller (1963) implies that capital structure is not irrelevant for firm value in a market with taxes because companies may incur tax benefits. If one assumes a constant WACC, one is therefore also assuming a constant capital structure (Miles & Ezzell, 1980). Historically Campbell has not held a constant capital structure, and this is therefore a problematic assumption, the debt level is furthermore very low, so the most likely scenario is increasing debt which likely would go to share buybacks or investments in new growth areas and M&A activity, all of which are difficult activities to justify forecasting.

The debt-to-equity ratio for Campbell is currently around 0.20, while the five-year average is 0.31. The difference is mostly due to increasing market values of equity. The target capital structure is usually extrapolated from peers (Rosenbaum & Pearl, 2013). The peer group currently holds an average of 0.29 while the five-year average is 0.32. Campbell has seen a debt-to-equity ratio that has moved substantially from the peer group average, a convergence is therefore expected and the current peer group average of 0.29 is applied in the analysis going forward.

8.1.6 Estimation Results for the Weighted Average Cost of Capital

The base case estimation of WACC is 4.6%. The results from the Monte Carlo simulation show a span from around 3% to just short of 6% with an average of 4.2%. However, the base case WACC is a product of careful analysis and reflection on each sub component, while the Monte Carlo simulation show the span that is theoretically justifiable, although not necessarily in line with the strategic and financial risk parameters highlighted throughout this paper. The authors therefor emphasize that the base case is applied, while the Monte Carlo simulation results act as a basis for the sensitivity analysis of Campbell's market value of equity.

Figure 34. The WACC for Campbell

Source: Authors own compilation

Table 6.	WACC Distribution				
Source of Capital	Proportion of Total Capital	Cost of Capital	Marginal Tax rate	After Tax Cost of Capital	Contribution to WACC
Debt	22.5%	3.96%	34.0%	2.62%	0.59%
Equity	77.5%	5.15%		5.15%	3.99 %
Base Case WACC					**4.6%**

Source: Authors own compilation

8.2 DISCOUNTED CASH FLOW MODEL

Many perceive the DCF analysis as the best approach when valuing firms, projects, divisions etc. (Koller, Goedhart, & Wessels, Valuation, Measuring and managing the value of companies, 2010, p. 303). The model is solely dependent on its inputs. This makes it highly flexible and allows for great accuracy, but it also may lead to subjective bias, one of its main points of critique. The model discounts a firm's free cash flow to either estimate enterprise- or equity- value. This paper applies an enterprise value approach. The free cash flows to the firm (FCFF) are discounted by the WACC and the sum of all present value FCFF give an estimate for enterprise value. The valuation of the terminal period has however been valued using both an EV/EBITDA multiple and a Gordons growth approach. The rationale is that forecasting likely becomes prone to more error in the long term, and the risk of your forecast could increasingly deviate from market fundamentals, using a multiple in the terminal period may adjust for such bias. The DCF analysis has been complemented with an economic value added model (EVA), which can be seen in appendix 29. This model primarily operates as a sanity check as it should yield identical results as the DCF analysis, if performed correctly.

Eq. 16. $$Enterprise\ value_0 = \sum_{t=1}^{n} \frac{FCFF_t}{(1+WACC)^t} + \frac{FCFF_{n+1}}{WAACC-g} * \frac{1}{(1+WACC)^n}$$

Eq. 17. $$Enterprise\ value_0 = \sum_{t=1}^{n} \frac{FCFF_t}{(1+WACC)^t} + \left(\frac{EV}{EBITDA} multiple\right) * EBITDA_{n+1} * \frac{1}{(1+WACC)^n}$$

The result of the above formulas yields an estimate for enterprise value, which deducted for net interest bearing debt (NIBD), yields the estimate for market value of equity. The authors find the multiple-approach more appropriate in the case of Campbell because setting a terminal forecast is extremely difficult. It would represent a strong majority of the valuation, but also be prone to the most uncertainty. The terminal period puts almost all inputs into question as you are basically trying to set an average for infinity regarding Campbell's performance. It is for example, extremely difficult to assess whether Campbell will be able to operate with its current cost margins in perpetuity. Using an EV/EBITDA approach is perceived as more tangible because it makes use of a market valuation and performance relationship, the relationship is not without uncertainty but you can rely on empirical findings from both Campbell's historical range as well as that of comparable firms, something that reduces the risk of large deviations in the valuation of the terminal period.

The FCFF is expected to increase as a consequence of sales growth, which is also expected to grow at a faster pace than costs. The change in net working capital is also expected to have a positive effect as the authors expect Campbell to return to previous levels of negative net working capital, this is due to the expectations of a recovering economy and Campbell's strong bargaining power with its suppliers.

Table 7.   Forecasted Cash Flow Statement

	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
NOPAT (+)	884	940	1.035	1.098	1.169	1.241	1.314	1.389	1.465	1.503
D&A (+)	323	336	347	360	369	377	385	392	398	409
NWC (-)	- 71	- 50	- 96	- 104	- 16	- 15	- 15	- 15	- 13	- 14
CAPEX (-)	512	537	474	514	531	520	516	518	504	598
FCFF	**766**	**789**	**1.004**	**1.048**	**1.024**	**1.113**	**1.197**	**1.278**	**1.372**	**1.327**
NIBD (+)	307	121	25	40	117	102	93	89	74	141
Net Financial Expenses (-)	142	146	147	148	151	154	157	160	162	166
Tax Shield (+)	43	44	44	44	45	46	47	48	49	50
FCFE	**974**	**808**	**926**	**985**	**1.034**	**1.107**	**1.181**	**1.255**	**1.333**	**1.351**
Dividends	- 974	- 808	- 926	- 985	- 1.034	- 1.107	- 1.181	- 1.255	- 1.333	- 1.351
Cash Surplus	-	-	-	-	-	-	-	-	-	-

Source: Authors own compilation

Using the WACC of 4.6% as found in section 8.1.6., and a terminal EV/EBITDA value of 10x the authors find that the base case scenario implies an enterprise value of around $25.5 billion, deducting the NIBD of $4.7 billion shows a market value of equity around $20.7 billion, this is around 3% above the current market pricing. However, the terminal multiple is set conservatively, and using the current multiple would yield an estimate that is ~35% higher. Comparatively, utilizing the Gordons growth approach to the terminal value yields an even higher valuation, the implied EV/EBITDA is around 19x, which is close to the current level, but expecting such a high multiple in perpetuity is deemed unrealistic as it represents the upper quartile of the historical range.

8.2.1   EV/EBITDA multiples

Figure 35.   EV/EBITDA Multiples
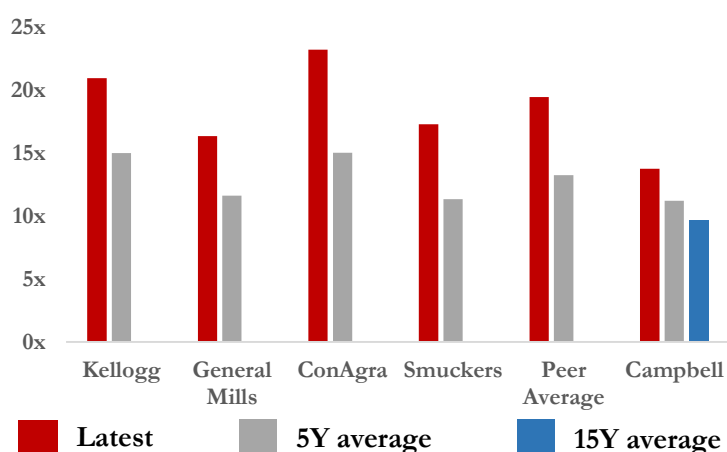
Source: Authors own compilation

The food industry currently holds an EV/EBITDA multiple of 14.93x (Damodaran, New York University, 2016). Since 2001 Campbell has experienced being valued between 8x and 15x, a large spread with the average being just short of 10x. Their closing share price from the 10th of May implies an equity value of $20.2 billion, with the projected NIBD and EBITDA for 2016, which accounting year ends in august, the implied EV/EBITDA close to 15.8x. This is somewhat higher than the industry average found by Damodaran. It is also in the high end when comparing to the last 15-years. The implication is simply that Campbell on multiples appears to be priced at par or slightly above compared to the industry mean. A valuation above

average could be explained by the strong historic performance in cost management and its recent success in further improving margins, which are among the best in this industry. An EV/EBITDA multiple must be seen in regards to a firm's performance, a very high multiple may just be temporary as the multiple is linked to both share price- and EBITDA volatility. The industry top firms in regards to EV/EBITDA are Kellogg and ConAgra, these firms have seen reduced EBITDA. ConAgra for example had their EBITDA reduced by more than 60% last year, investors are likely expecting the company to rebound and therefore the multiple is still very high. The point is that the multiple is biased to short term fluctuations, and that is something one needs to bear in mind. The authors apply an EV/EBITDA multiple of 10x to the terminal period, which is perceived as a conservative estimate, but which also corresponds well with the historical level for Campbell and its peer group.

8.2.2 Results

The results of the DCF valuation show that Campbell is valued fairly in today's current equity market. As of the 10th of May, Campbell's equity was valued at $20.2 billion, the authors found a value of $20.7 billion. A significant portion of the value is however set in the terminal period, which represents around three quarters of the valuation, and the effect is that the valuation is very sensitive to the forecasted terminal period. The results from the DCF indicate that Campbell may not be such a likely takeover candidate. Taking a company private almost always require a bid above current market price in order to gain control. This would mean paying above the estimated fundamental value, which makes it more difficult for the investment to return a decent return. As will be discussed in section 9.3. a takeover will however also give the acquiring party control to initiate new strategies where they see fit, the value may therefore, for an acquiring party be more when compared to a marginal investor. Furthermore, a negative development in Campbell's financial performance could lead the company to be priced at a higher multiple because a convergence is more likely, as has been seen in both Kellogg and ConAgra. The most important two factors are therefore the WACC and the EV/EBITDA multiple. One should note that the WACC is dependent on the risk free rate, which is expected to increase in the future from its current historical low levels. A higher risk free rate in the future would most certainly lead to an increased WACC, which ultimately would reduce the fundamental value. Nonetheless, the sensitivity analysis indicates more potential upside than downside.

Figure 36.   Sensitivity Analysis

EV/ EBITDA	Weighted Average Cost of Capital					Terminal Growth Rate				
	3.5%	4.0%	4.5%	5.0%	5.5%	2.1%	2.4%	2.6%	2.9%	3.1%
8.0x	59.7	57.1	54.6	52.2	49.9	54.0	54.3	54.6	54.9	55.1
10.0x	71.8	68.7	65.7	62.8	60.1	65.0	65.3	65.7	66.1	66.4
12.5x	87.0	83.2	79.6	76.1	72.8	78.7	79.1	79.6	80.1	80.6
14.9x	102.1	97.7	93.5	89.5	85.6	92.4	92.9	93.5	94.2	94.7

Share price as of May 10th 2016 was $65.4

	Unlikely		Likely		Most likely

Source: Authors own compilation

9 LBO ANALYSIS

This section seeks to evaluate the transactional aspects of a Campbell LBO as well as potential post acquisition initiatives that could further increase shareholder value. The section first discusses the potential acquisition premium needed in order to gain control of Campbell for then to analyze the potential sourcing of capital, strategic implications of active ownership and a return analysis.

9.1 ACQUISITION PREMIUM

Most acquisitions are not priced at the current share price, but include a premium in order to achieve majority shareholding. This is referred to as either a control- or acquisition- premium. Research indicates that the M&A premium on average lies between 20% and 30%. The premium paid above market price, could also reflect other factors, such as in-efficient capital markets, or in a merger, added compensation for the synergy effect (Petitt & Ferris, 2013, p. 10). In the U.S. Kengelbach and Roos (2011) found that the average premium was 36%, which is higher than previous research. Their findings include data on smaller firms as well, which typically are valued at higher multiples and see higher premiums because they are experiencing large growth (Boston Consulting Group, 2011, p. 10). In the case of Campbell, it is difficult to assess a correct premium, as this would depend a lot on the financing of such an acquisition and the findings in the LBO analysis in section 9.5. There is however one fact that likely means a need to propose a large premium, which is that a lot of shareholders are family and descendants from John T. Dorrance (the inventor of canned condensed soup). Three descendants sit on the board and Forbes estimate that eleven family members in total hold approximately 50% (Forbes, 2015), with Mary Alice D. Malone holding around 17.5%. The shareholdings are held through various funds and trusts making it difficult to estimate the family's combined shareholding. Nonetheless, this potentially makes a takeover more complex, if the family still owns such a large holding of the company it is vital to convince them of taking an offer. The family may be more emotionally attached to their shares than other investors which could hinder a potential takeover initiative. Two scenarios appear: A potential acquirer would pay a sufficient premium to gain control or a partnership model bringing the Dorrance family in on the LBO transaction.

9.1.1 Comparable Transactions and their Acquisition Premiums

Because premiums are difficult to assess without having the potential buyer in mind the authors review two comparable cases in the food industry: the acquisition of Heinz and its merger with Kraft Foods as well as Tyson Foods' acquisition of Hillshire Brands. Together these transactions represent the most current activity in the food sector that fits Campbell's business model and product range.

9.1.1.1 The H.J. Heinz acquisition & merger with Kraft Foods

On June 7, 2013 Heinz stopped trading at the NYSE as Brazilian private equity firm 3G Capital and Warren Buffet's Berkshire Hathaway teamed up to take the company private through a $28.75 billion leveraged buyout. Heinz shareholders received $72.50 in cash for each share of common stock, resulting in 3G and Berkshire paying a 20% premium, in addition to taking over the company's existing debt. In total Heinz was acquired at an

EV/EBITDA of around 14x. By leveraging up, 3G and Berkshire didn't put up more than $4.25 billion of equity each, Berkshire however also invested another $8 billion in preferred stock (Kraft Heinz, 2013).

In 2015, 3G Capital and Berkshire Hathaway teamed up to create a new company through the merger of H.J. Heinz Co. and The Kraft Foods Group. Post-merger the Heinz shareholders, with the majority made up of 3G Capital and Berkshire Hathaway, ended up holding a 51% stake in the newly formed company, called The Kraft Heinz Company. The remaining 49% went to shareholders of Kraft, which were also given a one-time cash dividend of $16.50 per share. The cost of this $10 billion dividend, were borne by 3G Capital and Berkshire Hathaway, and equals around a 20% premium compared to the share price at the time. The EV/EBITDA was above 17x which is considered high, the merger however did represent an array of synergy opportunities which likely justified the final deal value.

9.1.1.2 Hillshire Brands acquired by Tyson Foods

Hillshire Brands common stock was delisted and ceased trading on the NYSE and Chicago Stock Exchange (CSE) on August 28, 2014, as the company signed a $7.7 billion deal to be acquired by Tyson Food. Tyson won a long drawn-out bidding war for the company with its offer of $63 a share, just north of a 70% premium to Hillshire's valuation before the bidding process began. The EV/EBITDA multiple of this transaction was more than 18x, which is very high. The significant acquisition premium can in large be explained by the secretive nature of the auction process, which resulted in Tyson's offer coming in hundreds of millions of dollars over the next-best offer, made by Pilgrim's Pride Corp., part of Brazilian meatpacking giant JBS SA. Through the merger however, cost cuts as a result of synergies are expected to be more than $500 million, by fiscal year 2017. The merger has also secured Tyson a long-lusted branded meat portfolio, which in general carries higher profit margins than processed meat sold to restaurants etc., which previously accounted for the majority of Tyson's sales (The Wall Street Journal, 2014). Tyson's strategy pre- and post-merger has been to focus its growth on prepared and branded food, and the merger has thus functioned as a springboard, helping Tyson accomplish something that otherwise would have taken them years. The acquisition therefore holds large value for Tyson through cost- and distribution- synergies something that explains their willingness to pay such a high premium for Hillshire brands.

9.1.2 The effect of block holders and family interest

The fact that the Dorrance family holds a large shareholding of Campbell complicates a potential transaction because one would have to take into account this special investor group, which at the same time is fragmented (eleven family members). Furthermore, family ownership may not be fully rational, but rather hold emotional attachment to its investments compared to other investors. This may make it difficult to acquire Campbell, as block holders such as this are less likely to want to sell at the right price, compared to other investors.

In the scenario where the Dorrance family does not want to sell, a scenario where they partake as part of the acquiring holding company could be explored. The authors see several similarities with such a model and the one pursued by 3G Capital when acquiring Heinz. The Heinz acquisition was led by two investors with different agendas, Berkshire Hathaway which is known for long-term positioning without interfering with daily operations,

and 3G Capital which puts strong emphasize on cost management and margin improvement. A partnership between the Dorrance family and a private equity firm would in the same respect bring together a long-term investor with a more "cut throat" investor. The authors believe that such a partnership is possible but also requires that Campbell's historical value be respected. The main problem for Campbell has been top line growth, the new buyers should therefore have strong plans for increasing revenues in order to convince the Dorrance's that a new investor partnership is the right move. Another potential aspect is the potential for cost savings, 3G Capital increased the EBITDA margin from 18% to 26% in less than 2 years.

Research on family ownership finds that family ownership holds a positive effect on firm value consistent with a competitive advantage. Families also often act as stewards of the family legacy and business and hold a profit horizon that is long term (Villalonga & Amit, 2009). Some research also points to controlling parties, such as families, as more prone to tunnel capital out of the firm, thereby benefitting some shareholders on the expense of other. Whether this could be the case at Campbell is very difficult to assess, some of the Dorrance's do hold positions in the company. Villalonga & Amit (2009) find that such tunneling is more likley to occur at the operational level, prior to EBITDA in a firm's income statement. This could for example be the use of company assets by the Dorrance's who hold board member position at Campbell for personal use at the firm's expense. This is however a practice that is incredible difficult to see from outside of the firm through publicly avilable information.

Another aspect is that the ownership is spread across several family members, and only together may they actually hold majority. The fact that three board members are descendants from John T. Dorrance, indicate that this is the case, but if one goes back to the 1990s the family was in conflict because some wanted to sell while others wanted to hold and protect the family legacy (The LA Times, 1989). The right offer could therefore spark new tension and the authors find it unlikely that all family members would want to rollover their equity into the deal.

A buy-out approach of Campbell should therefore be open to the possibility of uproar from the Dorrance family, and without acquiring some of their shares a buyout becomes extremely difficult. An example approach on how please the family shareholders, could be through including them in the deal and paying a special dividend equaling the premium offered to other shareholders (like Heinz did with Kraft Foods). The right strategic partner for the Dorrance family could help Campbell become truly global company with a more globally diversified sales distribution.

9.1.3 Applied Acquisition Premium

The Heinz acquisition was done at a 20% premium and the merger with Kraft Foods was done at a special dividend of around 20%. Given that both of these transactions represents highly comparable firms to Campbell, a premium of 20% is applied to the market equity valuation as of May 10th 2016. The case of Hillshire shows how far some buyers will stretch to gain potential synergies with a target. In the case of this thesis, where the potential buyer is assumed to be a financial sponsor and not a strategic buyer, the synergy effect plays a small, if not any role at all. A large premium above Campbell's current valuation would make such a deal un-profitable. On the other hand, it

utilizes potential arbitrage between equity- and debt- capital markets. With target IRR of most private equity firms being around 20% the LBO analysis will show what room exists for a premium. The Heinz acquisition which was done at 14x EV/EBITDA has so far yielded an implied IRR of 38%, after merging with Kraft, so with a target of 20% as a bare minimum there was clearly room for a premium above 20%. This is something that is further tested in the sensitivity analysis in section 9.6. The base case LBO scenario hence applies a 20% premium, valuing the company at around $27.1 billion.

9.2   LBO DEAL FINANCING STRUCTURE

If an acquisition is possible at an enterprise valuation of $27.1 billion, a substantial amount of debt must be raised. The average D/EV in U.S. LBOs is 0.70, for public-to-private transaction the range is from 0.66 to 0.72 with the average of 0.69 (Axelson, Jenkinson, & Strømberg, 2013, p. 2239). The main scenario therefore applies an equity contribution around 40% (includes some equity rollover) of enterprise valuation, which is around $10.6 billion, leaving close to $17 billion to be raised in debt (excl. the transactional costs involved). This section takes a closer look at how LBO debt financing is sourced, and at what price and terms. The authors look at the Heinz case as well as the debt structure of U.S. LBOs in general which is presented in section 9.2.2. A discussion of whether some current debt and equity holders could be rolled over is also discussed before a final base scenario financing structure is proposed.

9.2.1   The Heinz Deal Structure

The Heinz acquisition from 2013 serves as a great case study for large buy-outs within the packaged food industry. It is the latest mega deal in the industry, and comparable to a potential LBO of Campbell in many ways. The following section presents the financing structure and fees incurred in this $28.75 billion deal. 3G Capital and Berkshire Hathaway raised a total of $12.6 billion in debt in order to fund the acquisition of Heinz, contributed $8.5 billion in equity and Berkshire financed another $8 billion in preferred equity. The equity portion stood for 29.5%, which is very consistent with general LBO structures as researched by Axelson et al. (2013). The preferred equity shares are treated as debt in this equation, and are therefore not part of the 29.5%. The remaining financing consisted of three categories: term loan B-1's, term loan B-2's and a second lien issue, of $2.95 billion, $6.55 billion and $3.1 billion respectively. The investors also secured a new revolver line credit of $2 billion and a senior credit facility of $2.25 billion (H. J. Heinz Corporation II, 2013).

9.2.1.1.1   Term loan B-1 ($2.95 billion)

This category held six years to maturity with a LIBOR spread ranging from 1.25% - 1.50% and a negotiated floor of 2%. Meaning that Libor plus spread must yield a rate above 2% if not 2% is applied. The debt was however secured through the use of interest rate swaps, so that after a two-year period the effective rate was 4.5% (H. J. Heinz Corporation II, 2013).

9.2.1.1.2   Term loan B-2 ($6.55 billion)

This category held seven years to maturity with a LIBOR spread ranging from 2.25% - 2.50% and a negotiated floor of 1%. Meaning that Libor plus spread must yield a rate above 2% if not 1% is applied. The debt was however

secured through the use of interest rate swaps, so that after a two-year period the effective rate was 4.5% (H. J. Heinz Corporation II, 2013).

9.2.1.1.3 Second lien ($3.1 billion)
This category held a seven and a half years to maturity with a fixed rate of 4.25% (H. J. Heinz Corporation II, 2013).

9.2.1.1.4 Credit facilities
The new entity secured a revolver of $2 billion with five-years to maturity and with a spread over LIBOR from 0,5% to 2% according to various floating debt conditions. The credit can be set as either a floating- or fixed- rate according to the firm's demand and need, which explains the large range in LIBOR spread (H. J. Heinz Corporation II, 2013).

The senior debt also held the opportunity secure another $2.25 billion in term loans, should certain performance conditions be met by the company. At the time of the acquisition the LIBOR rate laid around 0.5% but today it has increased to 1.22% (H. J. Heinz Corporation II, 2013).

9.2.1.2 Equity
In total, 3G and Berkshire invested $8.5 billion of equity evenly split. Berkshire also invested another $8 billion in preferred stock with a 9% annual dividend (H. J. Heinz Corporation II, 2013). Although preferred equity is treated as equity in financial statements, the practical application resembles that of a debt instrument. In the case of Heinz, the preferred shares yield a fixed dividend of 9%, which can be compared to a bonds coupon payment, the shares also do not represent any voting rights in Heinz but do represent an equal ownership relation, which is why it is categorized as equity. Hence, the instrument is a hybrid between equity and debt, and is treated subjectively by analyst and investment professional's dependent on each case's characteristics.

9.2.1.3 Financial fees and summary
The total raised amount from debt and equity was $29.1 billion with the aggregated value of the acquisition being approximately $28.75 billion. That puts the total acquisition costs at $350 million, which equals around 1.22% of acquisition value. $157.9 million were direct acquisition costs, while the rest was an effect of loss due to debt restructure and option plans (H. J. Heinz Corporation II, 2013).

9.2.2 Common LBO Deal Structure in the U.S.
According to Axelson et al. (2013) the spread above LIBOR is usually 2.7% for term loan A and bridge loans, 3% for other term loans and between 4.5% and 7.6% for other sources of debt financing. The most common source of debt is term loans, which represent around 70% of debt financing. This makes sense because it also represents the cheapest debt financing, the caveat is that it usually has to be repaid within five-years (Axelson, Jenkinson, & Strømberg, 2013). In general, however rates are highly influenced by the credit risk and rating. Firms such as Heinz and Campbell can show to a very long historical record, the stability of this record reduced the perceived risk and hence they see smaller spreads. The weighted average spread for Heinz's term loans was 2.07% for example, which is substantially lower than the spreads of 2.7% and 3% found by Axelson et al. (2013). The lower spread is likely a

combination of the firm's track record, and investors belief in the company's ability to handle increased debt, but this may also be affected by credit investors strong trust in the new owners, who also hold a solid track record.

Axelson et al. (2013) found that very few actually use preferred equity as a source of financing. They find that such financing is present at around 2.6% of LBOs in the U.S. and that it represents 0.5% of total debt. The Heinz transaction therefore represents an anomaly in this regard.

Figure 37.   Credit risk indicators

Source: Authors own compilation
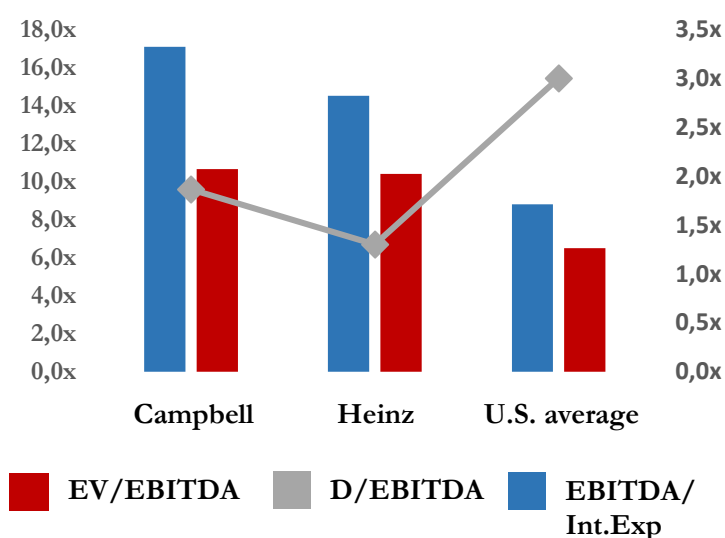
If one applies debt terns similar to those of Heinz to Campbell, adjusted for current LIBOR curve, and compare, two important facts come to light. First off, the acquisition in terms of multiples is higher which results in a higher debt burden. This speaks against Campbell as an LBO candidate. On the other, looking at EBITDA-to-Interest Expenses (one year into acquisition) shows that Campbell holds a seemingly stronger ability to cover its cost of debt (this includes dividend to preferred equity holders). Both cases however deviate substantially from the values found by Axelson et al. (2013).

9.2.3   Proposed Deal Structure at Campbell

Before a suggested source of financing can be laid forth an analysis of Campbell's current debt needs to be done. In an LBO, financing must be secured to purchase both equity and debt holdings, as well as cover all fees related to the transaction. For example, Campbell's current debt was secured at a different credit rating, one which will be changed once the LBO transaction is completed. Most corporate bonds and debt instruments include clauses and conditions, referred to as covenants, which often initiate debt redemption; takeover of large controlling interests is one of them. Some debt holders may choose to rollover their debt, but in most cases this is rare because there will be a mismatch between risk and reward. This section assesses the current debt of Campbell and whether it is likely to be rolled-over or not.

An overview of Campbell's corporate bonds is found in appendix 26 with average maturity date being May 2024, and a fixed coupon rate of 3.77%. That means most debt is structured at a very low spread above LIBOR, it is therefore safe to assume that these debtholders would not want to roll-over at the current terms, but would choose to either have the debt redeemed or have new terms of debt negotiated.

There is $200 million in corporate bonds with expiration in 2021 that yields an 8.875% coupon rate, this bond is more likely to be rolled over as it may actually be higher yielding than new term loans secured as part of an LBO

transaction in today's environment. Other debts that must be taken into consideration are credit facilities. Campbell holds a revolver credit facility of $2 billion with a 100 basis point spread above LIBOR. Research has found that revolver facilities usually hold a 2.25% spread to LIBOR (Axelson, Jenkinson, & Strømberg, 2013, p. 2234). In that comparison it would appear that Campbell's current credit facility is too cheap in regards to a new high debt capital structure. On the other hand, as shown in section 9.2.1.1.4., 3G Capital and Berkshire Hathaway secured a revolver credit facility at between 50 to 200 basis points above LIBOR for Heinz (depending on various conditions).

9.2.3.1   Term loans ($13 billion)

In conjunction with the findings from the analysis of the Heinz transaction and the research done by Axelson et al. (2013) the largest portion of debt financing is likely to be sourced through term loans. Because the amount of debt is so high in the case of Campbell it would be extremely difficult manage a large share of term loans with a category A. These loans typically have to be paid within five-years, and this would impact the IRR substantially. The use of term loan B's and C's therefore appear more likely as these usually only require an amortization of 1% (Rosenbaum & Pearl, 2013, p. 183). Axelson et al. (2013) found that the LIBOR of term loan B's and C's is around 3%, at current levels that puts the rate at around 4.25%. A common practice in order to secure relatively low rates is to hedge the rate using swaps, this was done in the Heinz deal where the rate before the hedge was around 3.5%, their spread above LIBOR was however closer to 2%. One reason for the deviation between the Heinz acquisition and the research findings by Axelson et. al (2013) could be due to perceived lower credit rating as an effect of size and "prestige" in terms of the buyers who hold a very strong track record. In our base case we follow the findings of Axelson et al. (2013), which gives an initial floating rate around 4.25%. When Heinz hedged its rate it increased by approximately 1%, for Campbell that would mean a fixed rate around 5.25%.

9.2.3.2   High Yield ($3.9 billion)

The issuance of high yield bonds has been a common practice in LBO financing (Rosenbaum & Pearl, 2013, p. 185). The amortization of such debt is usually low, if not in the form of a bullet payment at maturity (Axelson, Jenkinson, & Strømberg, 2013). The second lien issued in the Heinz case held a maturity of seven years. A common practice is however to pay down term loans, as these actually require amortization, for then to restructure the high yield debt against higher rated term loans. The second lien at Heinz held a fixed coupon of 4.25%, the other high yielding instrument was the preferred equity which yielded a 9% dividend, the weighted average "coupon" was 7.7%, which would have represented a LIBOR spread of around 7% at the time. This corresponds well with the results by Axelson et al. (2013) who found a range of 4.9% to 7.6%, the fact that the Heinz LBO saw a spread in the high end makes sense due to the high degree of leverage involved which increases the risk of default. A clear indicator of this was the EBITDA/Interest Expense ratio, which was 1.3x which is less than half of what has been seen on average by Axelson et al. (2013). The authors expect the Campbell terms to be close to the Heinz debt terms. This is mainly due to the similar leverage structure, deal size, and commonality in business model and operational risk. With the LIBOR spread around 7% that yields an expected high yield rate of 8.25%.

9.2.3.3 Equity ($ 10.6 billion)

Both in the Heinz deal and in the research by Axelson et al. (2013) the equity portion represents around 30% of enterprise value. Financial literature generally points to equity representing between 30% and 40% (Rosenbaum & Pearl, 2013, p. 187). Existing company management often rollover their equity, this is a practice often encourage by the acquiring party, and ranges from around 2% to 5%. In the case of Campbell, a scenario with more rolled-over equity seem likely due the large family ownership which as mentioned might be very reluctant to sell their shareholding. The authors apply a total equity contribution just short of 40% where approximately 10% is rolled-over equity. Due to the high acquisition price compared to EBITDA a higher proportion of equity is preferable because it reduced the credit risk.

Figure 38.   Deal financing structure

Term Loan B's (5.25%)	High Yield (8.25%)	Equity	Rolled-over equity
49%	15%	28%	9%

0%	20%	40%	60%	80%	100%

Source: Authors own compilation
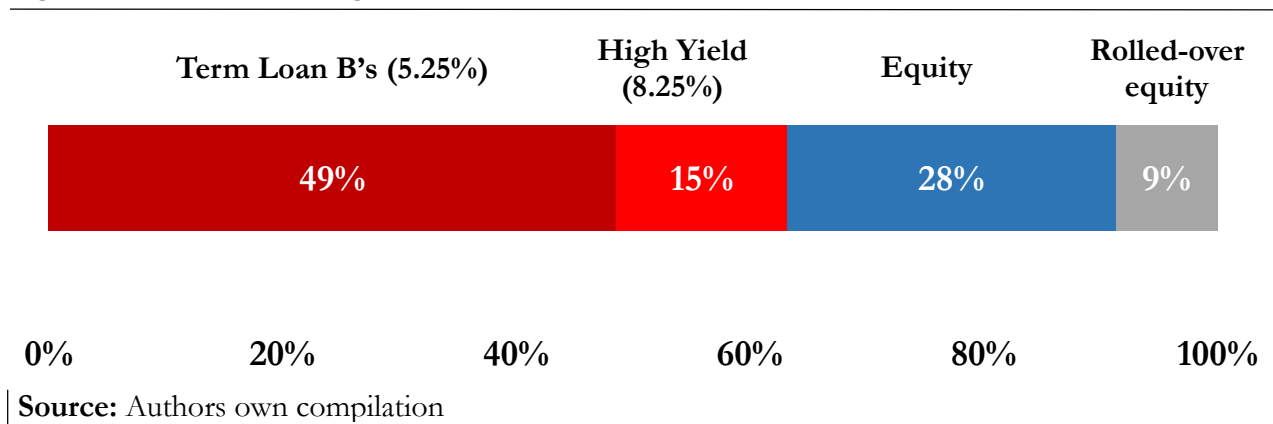
9.3 IMPROVING MARGINS THROUGH ACTIVE OWNERSHIP

While the leverage effect in an LBO alone lays a strong foundation for return on equity, most LBO's also involve some form of operational improvements or other strategic initiatives to the acquired company. This is usually done in order to improve margins, hence improving the exit-valuation. Through majority ownership of the acquired company, the acquirer enjoys full control over management and is thus free to make changes on all levels, as long as the debt covenants set by creditors are not violated.

9.3.1 Heinz – the 3G-way

In 3G and Berkshire's acquisition of Heinz, significant lay-offs and operational improvement resulted in the EBITDA-margin improving from 18% to 26% in less than three years. As mentioned earlier in section 9.1.1.1, Heinz where able to better their margins by reducing headcount, shutting down less efficient manufacturing facilities and implementing zero-based budgeting. The latter is known as 3G's favorite tool, used to enforce a more stringent form of cost control. The system demands every expense to be newly justified every year, both old and new ones, with the goal of bringing cost lower than the year before.

Being a global packaged food company operating in an industry categorized by fierce competition, limits Campbell's potential for scaling up sales at levels seen in LBO cases featuring less matured companies. In combination with Campbell being financially sound, and with fairly strong and stable margins, the company is not an obvious acquisition candidate for financial sponsors specializing in quick turnarounds. A potential financial buyer for Campbell is more likely to focus on cost cutting, making a leaner organization that brings up margins and ultimately securing a strong exit. With that in mind, it's highly relevant to take an even closer look at how 3G go about managing their portfolio companies.

For while 3G is considered a cost cutting wizard, the firm's record when it comes to boosting sales is less admired. 3G however, is still able to pull of highly accretive mergers and LBO's yielding first-tier IRR's. So what exactly does 3G do, and which of these measures are suitable and realistic to be executed by a potential financial sponsor if acquiring Campbell's?

9.3.1.1 Reducing headcount

When 3G acquired Anheuser-Busch, the maker of Budweiser beer, they started off by shedding 1,400 jobs, accounting for about 6% of the company's headcount at the time. The Heinz acquisition saw similar layoffs when 3G terminated 600 employees at the companies headquarter. The significant reduction in headcount caused unrest, which resulted in 3G offering the remaining 1200 headcounter employees voluntary buyouts, of 40% accepted, a number far higher than 3G anticipated. The number was in fact too high, causing 3G to rehire.

In relation to Campbell, who employs more than 18.600 employees worldwide, a headcount "hair-cut" in the case of an LBO must be considered likely. While 3G has been criticized for cutting too deep, hurting long term growth in the favor of short-term profits, one should still anticipate most financial sponsors to lay off a tiny fraction when acquiring a company like Campbell's. Because as mentioned earlier, Campbell's is neither an attractive growth case,

nor a company traded at a significant discount, leaving cost cutting as the most efficient tool to boost earnings. The question of how much room there is for cuts however still remain?

9.3.1.2   Cutting luxury perks of management

3G runs a tight ship and are known to remove most perks of employees at their portfolio companies, with their main focus being on cutting luxury perks of executives. Walls are usually torn down, with personal offices being joined together in open plan space in order to utilize office buildings better. Corporate jets are sold off, and companies no longer expenses first class plan tickets, not even for high-ranking executives. As an example one can look at the number of company Blackberries issued to employees at Heinz, which fell from 1,200 to 720 within the first year. The same goes for free sporting events tickets and other freebies perks, which are always cut off once 3G takes over a company.

While Campbell's are not known for excessive luxury perks, nor a fleet of corporate jets available for top management, one must still assume that at financial buyer would find costs to cut within the category.

9.3.1.3   Zero based budgeting

Campbell's introduced zero based budgeting as a part of their cost cutting program in 2015. Detailed information about how serious this practice will be executed is unclear. It is however, likely to assume that a financial buyer with a focus on cost cutting would execute this practice at every level of Campbell's organization, with top level management having to argue for their budget in the same manner as everyone else down the chain of command.

9.3.1.4   Potential Cost Cuts

Figure 39 shows sales and operational expenses per employee of both Campbell and some of its peers. The sales per employee are lower in the case of Campbell than Heinz, indicating that there is some room to better utilize

Figure 39.   Employee Sales & Cost ratio
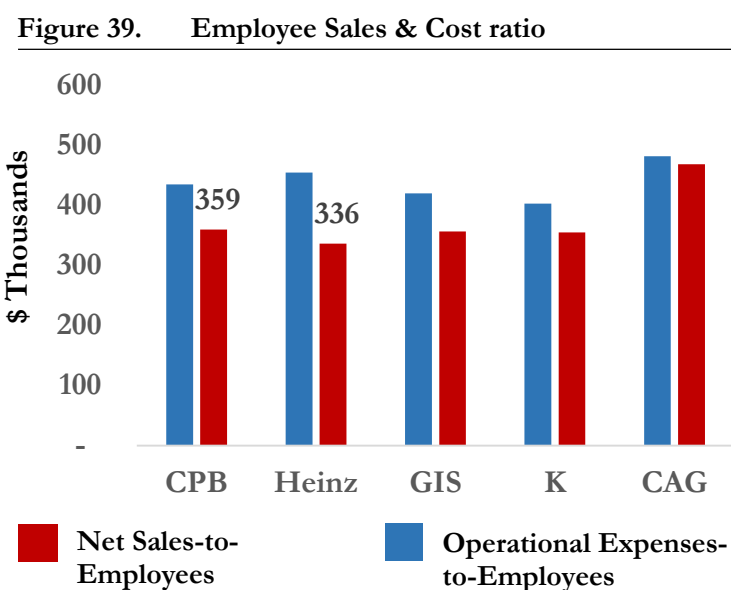
Source: Authors own compilation

scale. This fits well with previous findings and conclusions surrounding Campbell's main issue, growing sales. In regards to potential cost cutting, it appears that Campbell does have some room to cut costs. The average spending per employee at Campbell costs $23.000 more than at Heinz. Now, operational expenses do touch broader than employee salaries, so a cost-cut would not just be pursued through lay-offs. However, if Campbell could get down to similar levels as Heinz this would represent a reduced cost of more than $420 million per annum, that is $120 million more than Campbell's own goal

through its current cost savings program. Reaching an EBITDA margin of 26% would however also require

growing sales, the authors believe that fierce cost cutting could increase the EBITDA margin to around 24%, while a further 2% increase only would be possible by increasing sales.

9.3.1.5   Tax wizardry

3G are known to relocate offices, flag-out subsidiaries, and put in place complex tax structures in order to minimize taxes. With Campbell's being an "All American" company with deep American roots, and with the American government making it harder for companies to move aboard in order to save taxes, significant tax reduction in the case of Campbell's must be viewed as limited. An LBO of Campbell's does not offer the same option as cross-border merger, where financial buyer can choose to locate headcounters based on where they find the most favorable tax regimes etc.

9.3.2   Corporate Governance post acquisition

Today the board of directors at Campbell consists of twelve members. In a scenario of delisting Campbell and the emergence of new shareholders a change in the board composition is highly likely. On average a company's board sizes decrease by 15% and they also often experience a large turnover of board members when acquired by a private equity investor (Cornelli & Karakas, Corporate Governance of LBOs: The Role of Boards, 2012, p. 11). Furthermore, outside directors are often replaced by individuals representing the interest of the private equity firm (Cornelli & Karakas, Corporate Governance of LBOs: The Role of Boards, 2012, p. 12). Research by Cornelli et al. (2012) show that companies with a high degree of shareholder representatives on the board tend to deliver stronger operating performance. This is consistent with the view of Jensen (1989) regarding private equity firms actually being able to create operational value in their portfolio companies (see section 2.3). The authors believe that in the event of a LBO, the board of directors at Campbell, would likely be reduced to a maximum of ten individuals. Today the board consists of the current CEO, three Dorrance family members and eight outside directors. According to the research a change in board composition would appear highly likely and affect almost all current board members.

The authors deem it unlikely that all three Dorrance family members would be allowed a board seat, even though they rolled-over equity in the acquisition, at best they would be allowed to remain one seat. As for the outside directors, these would presumably all be replaced by representatives of the private equity investor. As for the CEO it is difficult to assess what her potential new role would look like. The current CEO of Campbell has held the position since 2011 and has not been able to significantly improve sales or margins in that period, it is therefore imaginable that a new acquirer would consider replacing the CEO. Research shows that a change of CEO is more likely in cases where a high degree of operational initiatives is sought, that would definitely be the case in Campbell as the main focus would surely be the improvement of EBITDA margins (Cornelli & Karakas, Corporate Governance of LBOs: The Role of Boards, 2012, p. 15).

The operational focus in a potential Campbell's deal, together with the current board composition, leads the authors to suggest a substantial change in board members. New board members should hold considerable experience relating to operational turn-arounds as well as scaling sales in growth- and emerging- markets.

9.4   EXIT OPPORTUNITIES

When a private equity firm exits an investment it's done by either selling the portfolio company off to strategic buyers, or done by taking the company public through an IPO. Due to the selling price's major impact on the IRR, a rational investor would always choose the exit opportunity yielding the highest valuation.

One can argue that a strategic buyer in general would be willing to pay the highest price, as they can justify paying a premium on the company's stand-alone fair value due to synergy effects that can be leveraged through a merger. Strategic buyers sometimes also find themselves in a bidding war with their competitors, which obviously can lead to substantial premiums, especially within industries that are experiencing a high degree of consolidation, in which case, scale is key, and growth through acquisitions necessary.

Private equity firms have also been known to pay high premiums when seeing high potential for operational improvements and cost cutting. Especially so due to many private equity firm's expertise on such processes, often making them more capable than large strategic buyers to "trim the fat" of companies and making them more lean and attractive for yet another sell in the future.

Public valuations on trading companies usually moves in cycles with the general economy, and when the appetite for stocks are high, one often see a rush of companies going public in order to take advantage of these high valuations.

Campbell's exit would thus simply be depending on which option yields the highest valuation at the time. Research on exit data regarding LBOs spanning from 1993 to 2004 found that IPOs on average yield an exit value that is 10% higher than secondary buyouts (Pindur, 2009). However, the best exit route is usually dependent on the specific case, and sponsor-to-sponsor and exits to strategic buyers have gained traction as of late.

9.5 RETURN ANALYSIS

As previously mentioned, investors seek returns that imply above 20% IRR. If the analysis shows a high risk for not being able to achieve the wanted return, investors must reconsider their acquisition price and their sources of financing (Rosenbaum & Pearl, 2013, p. 232). The usual exit period for private equity firms is five-years and the IRR is mainly driven by a firm's performance and the exit-multiple. The IRR is mainly used to benchmark investments, and is simply calculated by setting the net present value equal to zero and solving for the discount rate.

Eq. 18. $$NPV = 0 = -(Equity\ contribution) + \frac{(EBITDA_t * (Exit\ multiple)_t)}{(1+IRR)^n}$$

Figure 40. **Internal Rate of Return [IRR]**
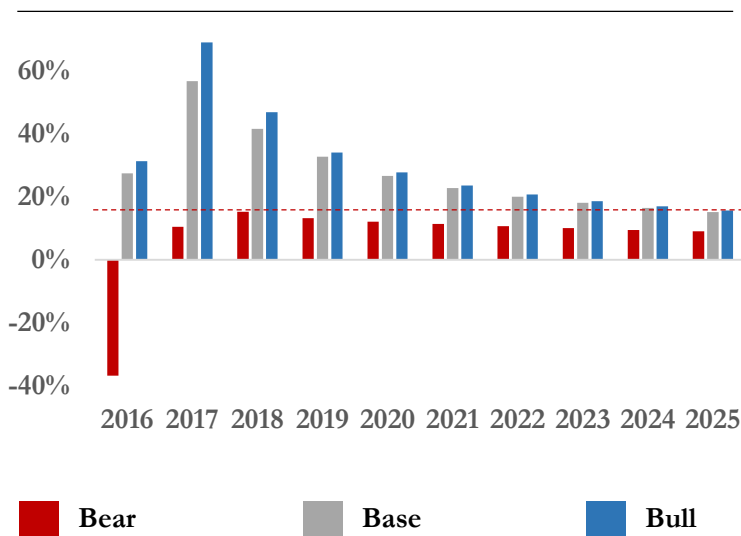
Source: Authors own compilation

Figure 41. **Campbell's Historical EV / EBITDA**
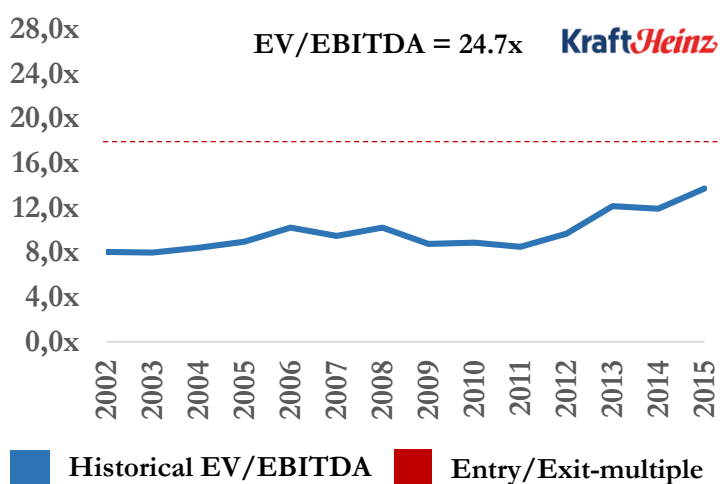
Source: Authors own compilation

In a case where the exit multiple is equal to the entry multiple and the acquiring party would be able to increase the EBITDA margin to 26% within two years, the investment would yield an IRR above 20% after six-years. The scenario therefore fits the industry requirements for an LBO.

The credit rating (see appendix 37) in the LBO scenario is estimated to be "B" and reach a "BB" after five-years and back to investment grade after 10 years. The debt burden therefore does not appear to be too extensive, and definitely something Campbell would be able to handle.

The largest uncertainty in the authors estimation is the exit multiple. With the EV/EBITA multiple for Campbell trading at all-time highs it appears more likely that the valuation would converge rather than keep increasing, which would mean a lower multiple. On the other hand, some peers are trading at extremely high multiples (Heinz Kraft at 24.7x), which indicate that the current level is not necessary the maximum.

9.6 SENSITIVITY ANALYSIS

The outcome of any valuation approach is never better than its inputs. Although the authors believe that they have projected Campbell's performance based on grounded reasoning through the strategic and financial analysis there will always be uncertainty. Because, although there are documented cases of securing enough capital to execute a $27.5 billion or reducing costs to a point where EBITDA margins increase by more than 8% points, nothing is certain. Assumptions are based on educated and calculated analysis, but predicting the future is impossible. Because of this, employing a thorough sensitivity analysis is important when weighing the risks associated with complex investment cases such as the one discussed in this thesis.

The sensitivity analysis is based on the spread between the three scenarios when it comes to financial- and operational- performance. Furthermore, the authors apply a range of exit EV/EBITDA multiples which range from 10x and 24.5x and test for various equity contributions that range from 30% to 40%. These are the main variables that affect the IRR. The findings show that the IRR in year-five may range from -15% and 40%, the majority of simulation results (53%) indicate an IRR above 20%. The large spread is a concern, but is also mainly due to the EBITDA margin in the bear scenario which is projected to not improve from current levels.

The authors also perform a regression using the log of the Monte Carlo simulation in order to assess which variables affect the IRR the most by a change in 1%. The analysis shows that EBITDA % and Exit multiple by far are the most important variables. This also seem logical as the exit value is a result of EBITDA times an EV/EBITDA multiple. For potential investors the key question therefore becomes: "*Are multiples too high in today's market?*". The authors looked at 15-years of financial data for Campbell, and have not seen EV/EBITDA multiples above 14x until 2016, the previous highs have been around 10x and 11x in 2006-2008. The historical aspect together with the simulations points to Campbell being too expensive to make an interesting LBO candidate because the risk of not securing an exit multiple that is at least equal to the entry multiple appears high.

Figure 42.   Monte Carlo of 5Y Exit IRR & Key Variable Sensitivity Impact
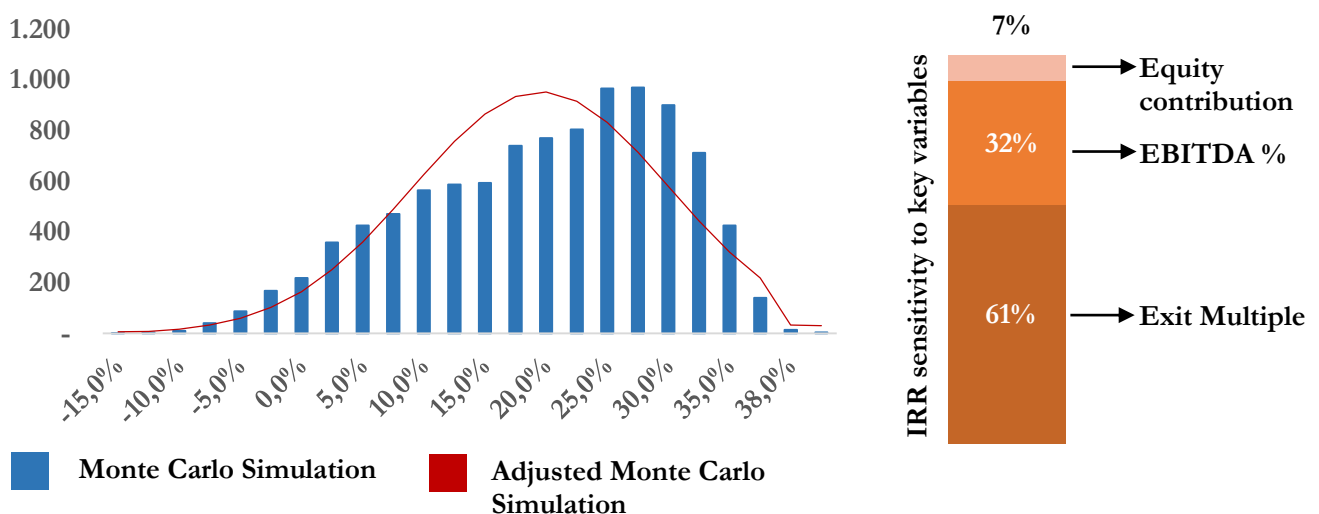
Source: Authors own compilation

10 CONCLUSION

This thesis set out to explore whether an LBO of Campbell could yield a satisfactory IRR given today's current market conditions. Campbell's share price is currently at an all-time high, trading at $61.7 a share, and with an EV/EBITDA multiple of around 16.5x, as of closing on May 10th 2016. In conjunction with our empirical study indicating that a premium of at least 20% would have to be paid on top of Campbell's current market value, in order to take the company private, this brings the total deal value, including various fees, up to $27.5 billion.

Campbell operates in the packaged food industry, it is considered stable and non-cyclical due to people's continued demand for its products. Furthermore, Campbell enjoys stable cash flows, a strong brand name and a reasonable amount of tangible assets, all of which, in theory, make it a suitable LBO candidate.

Through the strategic- and financial- analysis the key drivers for value creation in Campbell were identified. The same key-drivers led the foundation for an estimated fair value just north to the one of the market. Several factors speak for a strong valuation, such as Campbell's ability to deliver solid and stable margins. The company's main markets however, are saturated, which has resulted in concentrated competition and hampered sales growth. It is therefore the authors opinion that a financial sponsor looking to take Campbell private through an LBO, should focus their efforts on cost cutting, making the company more profitable in order to secure an exit that would yield a satisfactory IRR. The problem however is that margins are already fairly strong, and cutting too deep too soon could put long-term value creation at the expense of short term returns.

Through analyzing comparable transactions, like the Heinz LBO, where "best practice" cost cutting has been put in action, the authors recommend a number of possible steps, deemed realistic to execute, in order to make Campbell more profitable. By executing these actions Campbell could increase its EBITDA margin from 20% to 26% in a manner of two years. Furthermore, by analyzing the financial aspects of the Heinz LBO, among others, the authors have gained empirical insight into how the capital structure of Campbell's LBO should be composed. In conjunction with theoretical studies on the subject, and by taking the market conditions into account, a capital structure composed of 38.5% equity and 61.5% debt was deemed most realistic.

Campbell's selected comparable trading multiples currently hold an average of 19x EV/EBITDA, though higher than the historical average, the packaged foods industry moves cyclical in terms of public valuation, and on the basis of that the authors points to the high degree of uncertainty regarding exit-multiple. The LBO analysis is this conducted applying same entry- as exit- multiple, 17.1x. In order account for the uncertainty in regards to when Campbell could expect to see favorable valuations suitable for an exit, the LBO model performed in this thesis has looked at various time frames and multiples, concluding that exiting within five-years appears the most profitable.

Based on the above, this thesis conclude that an LBO of Campbell's would be satisfactory by yielding an IRR of 20.02% in the base case. Driven by an EBITDA margin of 26%, EV/EBITDA of 17.1x and an equity contribution < 40%.

11 THESIS IN PERSPECTIVE

In writing this thesis the authors assessed Campbell from a generic standpoint, rather than on behalf of a specific private equity firm. In retrospect it has become clear that writing on behalf of a financial sponsor would have made things easier on the authors, as a lesser amount of assumptions would have had to be taken.

By assessing an LBO of Campbell through the "eyes" of a specific private equity firm the authors would know what IRR to target, and possess knowledge about the firm's bank relation, which in terms could have helped indicate what debt terms and covenants that could be expected etc. Furthermore, and maybe most important, the authors would have been able to lay the firm's track-record in terms of cutting cost and optimizing portfolio companies as a foundation, when estimating how margins would improve through the span of the LBO.

In other words, by playing the role of a specific buyer, the thesis could have enjoyed a higher level of concrete substance, rather than having to approach every subject from a generic angle.

However, the authors believe there are only a handful of private equity firms capable of pulling an LBO like the one featured in this thesis, as it would demand strong financial muscles and significant experience in operational improvement specific to the consumer product industry, and preferably to the packaged food industry itself. Thus, the approach of implementing "best practice" cost cutting initiatives based upon empirical studies of previous comparable transactions, as done in this thesis, must be considered non-generic, and a fair proxy to the actions a potential buyer would take.

Another angle not explored in this thesis, is the one where Campbell is assessed as a merger candidate, and through conducting research for this thesis the authors have come to realize that such a scenario is just as likely as the one of an LBO. The industry has seen a great level of consolidation, as economies of scale and bargain power towards the retail chains has become increasingly important. With Campbell's broad brand portfolio, strong brand name, size and international presence the company would be suited to merge with several of the industry's major players like ConAgra, Kellogg's etc. In comparison to this thesis, an assessment of Campbell as a merger would have to take a non-generic approach, as synergies would be impossible to analyze without having two specific companies. While an LBO put significant emphasize on financial technicalities, especially in relation to debt, a merger assessment would be circled around how two companies fit together, hence how their combined resources could lead to an accretive merger. The assessment of likely merger candidates would hence follow a different methodology with an emphasis on the operational and strategic synergies of potential merger candidates. The potential candidates are many, and therefore as with this thesis, a merger assessment would be easier to perform if writing on behalf of a specific company looking to acquire Campbell, as it would provide inside knowledge on buyer resources and preferences.

12 BIBLIOGRAPHY

3G Capital. (2016, May 5). *Kraft Heinz Investor Presentation*. Retrieved from Shareholders: http://files.shareholder.com/downloads/ABEA-3QV6OO/4150227884x0x817729/f232e16c-6b2f-4526-8920-ee2b1c252555/Kraft_Heinz_Investor_Presentation_2015-03-25.pdf

Acharya, V., Hahn, M., & Kehoe, C. (2011, June 2). Stern New York University. *Corporate Governance and Value Creation: Evidence from Private Equity*. New York, New York, United States of America. Retrieved from Pages: http://pages.stern.nyu.edu/~sternfin/vacharya/public_html/20110702_text_clean_final_og.pdf

Anthony, S. (2013, March 13). How To Really Measure a Company's Innovation Prowess. *Harvard Business Review*.

Axelson, U., Jenkinson, T., & Strömberg, P. (2013, December). Borrow Cheap, Buy High? The Determinants of Leverage and pricing in Buyouts. *The Journal of Finance*, 2223-2267.

Bain. (2015). *Repeatable M&A in consumer goods*. Boston: Bain.

Ballaban, M. (14. February 2013). *Forbes*. Hentet 11. April 2016 fra Forbes: http://www.forbes.com/sites/mergermarket/2013/02/14/buffetts-buy-of-heinz-is-weird-trust-me/#10d3ccad4da1

Bancel, F., Lathuille, Q., & Lhuissier, A. (2013). Why is "your" WACC necessarily wrong? *ESCP Europe*, 19.

Barney, J. (1991). Firm Resources and Sustained Competitive Advantage. *Journal of Management*, 99-120.

Barney, J., & Hesterly, W. (2006). *Strategic Management and Competitive Advantage*. Prentice Hall.

BBC. (4. 2 2016). *Trans Pacific Partnership trade deal signed in Auckland*. Hentet 4. 7 2016 fra BBC: http://www.bbc.com/news/business-35480600

Bloomberg. (25. 3 2015). *Warren Buffett Quadrupled His Ketchup Investment*. Hentet 4. 5 2016 fra Bloomberg: http://www.bloombergview.com/articles/2015-03-25/warren-buffett-quadrupled-his-ketchup-investment

Bloomberg. (2016a, March). Australian dollar vs. U.S. dollar.

Bloomberg. (2016b, March). 12 Month LIBOR rate.

Bloomberg. (2016c, April). Historical Share Prices.

Blume, M. (1975, June). Betas and their regression tendencies. *The Journal of Finance*, pp. 785-795.

Boston Consulting Group. (2011). *Riding the Next Wave in M&A*. Boston Consulting Group.

Brennan, K. a. (1. 12 2013). *Tough choices for consumer-goods companies*. Hentet 1. 4 2016 fra McKinsey & Company: http://www.mckinsey.com/industries/consumer-packaged-goods/our-insights/tough-choices-for-consumer-goods-companies

Campbell Soup Company. (2001-2015). *Annual Report*. New Jersey: Campbell Soup Company.

Campbell Soup Company. (2010 - 2015). *Annual Report*. New Jersey: Campbell Soup Company.

Campbell Soup Company. (13. June 2013). Campbell Completes Acquisition of Plum Organics. *News Release*. Camden, New Jersey, United States of America: Business Wire.

Campbell Soup Company. (2013a). *Annual Report (10K)*. New Jersey: Campbell Soup Company.

Bibliography

Campbell Soup Company. (2014, July 14). Campbell To Launch More Than 200 New products in Fiscal 2015 To Meet Evolving Consumer Preferences. *Press release*. Camden, New Jersey, United States of America: Campbell Soup Company.

Campbell Soup Company. (2014a). *Annual report*. New Jersey: Campbell Soup Company.

Campbell Soup Company. (2015a). *Annual report 2015*.

Campbell Soup Company. (09. June 2015b). Campbell To Acquire Garden Fresh Gourmet To Extend Presence in Faster Growing Packaged Fresh Category. *Press Release*. Camden, New Jersey, United States of America: Business Wire.

Campbell Soup Company. (2016, February 17). Campbell To Provide Overview of Industry Forces, Company Strategy at CAGNY Conference. *Press release*. Camden, New Jersey, United States of America: Campbell Soup Company.

Campbell Soup Company. (2016, February 25). Q2 Fiscal 2016 Campbell Soup Company earnings Conference Call. *Webcast*. Camden, New Jersey, United States of America: Campbell Soup Company.

Campbell Soup Company. (2016). *Second Quarter Report*. New Jersey: Campbell Soup Company.

Campbell Soup Company. (18. April 2016a). *Campbell CSR: Strategy*. Hentet 18. April 2016 fra Campbell CSR: http://www.campbellcsr.com/Strategy/Approach.html

Campbell's Nutrition & Wellness. (01. 01 2016c). *Campbell's Nutrition Commitments*. Hentet 08. 04 2016 fra Campbell's Nutrition: http://www.campbellnutrition.com/campbell-commitment/programs-initiatives

Campbell's Soup Company. (2 2016). *Supply chain diversity*. Hentet fra Campbell CSR: http://www.campbellcsr.com/Opportunities/Supply_Diversity.html

Canada, T. G. (2010). *MARKET INDICATOR REPORT: PACKAGED FOODS In the United States*. Agriculture and Agri-Food Canada. Ottawa: Agriculture and Agri-Food Canada.

Chrisafis, A. (4. February 2016). *French law forbids food waste by supermarkets*. Hentet 1. April 2016 fra The Guardian: http://www.theguardian.com/world/2016/feb/04/french-law-forbids-food-waste-by-supermarkets

ConAgra Foods. (2010 - 2015). *Annual Reports*. ConAgra Foods.

Cornelli, F., & Karakas, O. (2008, February 1). *Private Equity and Corporate Governance: Do LBOs Have More Effective Boards?* Retrieved May 3, 2016, from European Corporate Goernance Institute: http://www.ecgi.eu/competitions/rof/files/Do%20LBOs%20have%20more%20effective%20boards,%20(Cornelli,%20Karakas).pdf

Cornelli, F., & Karakas, O. (2012, May). Corporate Governance of LBOs: The Role of Boards. *Social Science Research Network*.

Damodaran, A. (2006). *Security Analysis for Investment and Corporate Finance* (2nd ed.). Hoboken, New Jersey: John Wiley & Sons, Inc.

Damodaran, A. (2012, January). Valuation: Relative Valuation and Private Company Valuation. *Lecture Note Packet 2*. New York, New York, United States of America: New York University.

Damodaran, A. (2016, May 3). *New York University*. Retrieved from Stern NYU: http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/vebitda.html

Damodaran, A. (n.d.). *Equity Risk Premiums*. New York: Stern School of Business.

Bibliography

Deloitte. (2013). *Accelerating Complexity: Regulatory trends in the consumer goods industry.* London: Deloitte.

Desai, P., Potia, A., & Salsberg, B. (2012). *Retail 4.0: The Future of Retail Grocery in a Digital World.* London: McKinsey & Company.

European Commission. (2014). *Impact Assessment on Measures Addressing Food Waste to Complete SWD.* Brussels: European Commission.

Federal Reserve Bank of New York. (2013). Statement Regarding Purchases of Treasury Securities and Agency Mortgage-Backed Securities. New York: Federal Reserve Bank of New York.

Fernandez, P., Aguirreamalloa, J., & Linares, P. (2013). *Market Risk Premium and Risk Free Rate used for 51 countries in 2013: A survey with 6,237 answers.* Madrid: IESE Business School.

Finance, W. (9. 5 2013). *Hedging emerging market currency risk.* Hentet 1. 4 2016 fra World Finance: http://www.worldfinance.com/markets/hedging-emerging-market-currency-risk

Financial Times. (2007, November 15). Hands condemns bankers as a pack of "whimperinf dogs". *Financial Times.* Retrieved from http://www.ft.com/intl/cms/s/0/d453e66c-931d-11dc-ad39-0000779fd2ac.html#axzz49YW48VTu

Forbes & The Hartman Group. (16. July 2015). *Forbes.* Hentet fra Forbes: http://www.forbes.com/sites/thehartmangroup/2015/07/16/why-transparency-should-matter-to-food-and-beverage-companies/#5f3d90267a64

Forbes. (30. 3 2015). *Analysis Of the Kraft-Heinz Merger.* Hentet 4. 5 2016 fra Forbes: http://www.forbes.com/sites/greatspeculations/2015/03/30/analysis-of-the-kraft-heinz-merger/#3f7a95904eda

Forbes. (2015). *Forbes.* Hentet 4. May 2016 fra Forbes: America's Richest Families: http://www.forbes.com/profile/dorrance/

Forbes. (2015, February 18). *Forbes.* Retrieved from Forbes: http://www.forbes.com/sites/nancygagliardi/2015/02/18/consumers-want-healthy-foods-and-will-pay-more-for-them/#10e8117d144f

Gadiesh, O., & MacArthur, H. (2008, March 7). Lessons from Private Equity Any Company Can Use. *Harvard Business Review.*

Gara, A. (6. July 2015). *Forbes.* Hentet 11. April 2016 fra Forbes: http://www.forbes.com/sites/antoinegara/2015/07/06/kraft-heinz-will-prove-the-power-of-warren-buffetts-dealmaking-partnership-with-3g-capital/#6d62b18f4709

Gasparo, A. (2016, February 17). *Campbell Invests $125 Million in Project to Fund Food Startups.* Retrieved from The Wall Street Journal: http://www.wsj.com/articles/campbell-invests-125-million-in-project-to-fund-food-startups-1455750400

Gasparro, A. (09. June 2015). *Campbell Soup to acquire Garden Fresh Gourmet for 231 million.* Hentet fra The Wall Street Journal: http://www.wsj.com/articles/campbell-soup-to-acquire-garden-fresh-for-231-million-1433847842

General Mills. (2010 - 2015). *Annual Report.* General Mills.

Gertner, R., & Kaplan, S. (1996, December). The Value-Maximizing Board. *Social Science Research Network.*

Gottschalg, O., & Phalippou, l. (December 2007). *Magazine Archive, 2007, December.* Hentet 7. April 2016 fra Harvard Business Review: www.hbr.org/archive-toc/BR0712

Bibliography

Group, T. H. (20. 8 2015). *U.S. Packaged Foods At A Crossroads*. Hentet 1. 4 2016 fra Forbes: http://www.forbes.com/sites/thehartmangroup/2015/08/20/u-s-packaged-foods-at-a-crossroads/#ab0c2f850a3e

H. J. Heinz Corporation II. (2013). *Form 10-K*. Washington, D.C.: Securities and Exchange Commission.

Harris, M., & Shiptsova, R. (2007, November 24). Consumer Demand for Convenience Foods: Demographics and Expenditures. *Journal of Food Distribution Research*, pp. 22-36.

Henderson, B. (1970). The Product Portfolio. *BCG Perspectives*, 1-2.

Hong Kong Trade Development Council. (27. September 2015). *Trade Regulations of China*. Hentet 1. April 2016 fra Hong Kong Trade Development Council: http://hong-kong-economy-research.hktdc.com/business-news/article/Small-Business-Resources/Trade-Regulations-of-China/sbr/en/1/1X000000/1X006MY8.htm

Index Mundi. (2016a, March). Food & Beverage.

Index Mundi. (2016b, March). Agricultural Raw Materials.

Jacobs, M., & Shivdasani, A. (2012, July - August). Do You Know Your Cost of Capital? *Harvard Business Review*.

Jaeger, S., & Meiselman, H. (2004). Perceptions of meal convenience: the case of at-home evening meals. *Elsevier*, 317-325.

Jegadeesh, N., Kraussl, R., & Pollet, J. (September 2009). *Working Papers & Publications*. Hentet 7. April 2016 fra National Bureau of Economic Research: www.nber.org/papers/w15335.pdf

Jensen, M. (1986). Agency Costs of Free Cash Flow, Corporate Finance, and Takeovers. *The American Economic Review*(2), pp. 323-329.

Kahn, Z. A., Yahya, F., Naumann, M., & Farooq, A. (2013). The Association and Impact of Inflation and Population Growth on GDP: A Study on Developing World. *Interdisciplinary Journal of Contemporary Research in Business*, 903-910.

Kaplan, S., & Stømberg, P. (2008, September 9). Leverage Buyouts and Private Equity. *Journal of economic Perspectives*, 121-146.

Kellogg's. (2010 - 2015). *Annual report*. Kellogg's.

Koller, T., Goedhart, M. H., & Wessels, D. (2010). *Valuation, Measuring and managing the value of companies* (5th ed.). New Jersey: John Wiley & Sons, Inc.

Koller, T., Goedhart, M., & Wessels, D. (2005). *Valuation: Measuring and Managing the Value of Companies* (5th udg.). Hoboken, New Jersey: John Wiley & Sons Inc.

Kraft Heinz. (7. 7 2013). *Kraft Heinz*. Hentet 4. 5 2016 fra Berkshire Hathaway and 3G Capital Complete Acquisition of H.J. Heinz Company: http://news.heinz.com/press-release/finance/berkshire-hathaway-and-3g-capital-complete-acquisition-hj-heinz-company

Larkin, P. (2011). To Iterate or Not to Iterate. *Journal of Business & Economic Research, 9*(11), 29-34.

Ljungqvist, A., & Richardson, M. (January 2003). *Working Papers & Publications*. Hentet 7. April 2016 fra National Bureau of Economic Research: www.nber.org/papers/w9454.pdf

Lynch, D., & Vogel, D. (5. April 2001). *The Regulation of GMOs in Europe and the United States: A Case-Study of Contemporary European Regulatory Politics*. Hentet 1. April 2016 fra Council on Foreign Relations:

Bibliography

http://www.cfr.org/agricultural-policy/regulation-gmos-europe-united-states-case-study-contemporary-european-regulatory-politics/p8688

McKinsey. (2010). *Consumer Package Goods Practice: The decade ahead: Trends that will shape the consumer goods industry.* NYC: McKinsey & Company.

Miles, A. J., & Ezzell, R. J. (1980, September). The Weighted Average Cost of Capital, Perfect Capital Markets, and Project Life: A clarification. *Journal of Financial and Quantitative Analysis*, pp. 719-730.

Morningstar. (2016, May 01). *Morningstar.* Retrieved April 30, 2016, from Morningstar: http://quicktake.morningstar.com/StockNet/bonds.aspx?Symbol=CPB&Country=USA

Morrison, R., Buzby, J., & Wells, H. (1. March 2010). *Guess Who's Turning 100? Tracking a Century of American Eating.* United States Department of Agriculture Economic Research Service. Hentet fra USDA: http://www.ers.usda.gov/amber-waves/2010-march/guess-who%E2%80%99s-turning-100tracking-a-century-of-american-eating.aspx#.Vrhc2_krK70

Nielsen. (2014). *Convenience, It's Whats for Dinner Tonight: 2014 Brings a Fresh Take on Making Meals With Ease.* New York: Nielsen.

Nielsen. (2014). *The State of Private Labels Around the World.* Nielsen.

Nielsen. (2015). *We Are What We Eat.* New York: Nielsen.

Nielsen. (Q4 2015). *Consumer Confidence: Concerns and spending intentions around the world.* Nielsen.

Olsen, J., Blaydon, C., & Wainwright, F. (2002). *Pages: LBO_Note.* Hentet 7. April 2016 fra Stern New York University: pages.stern.nyu.edu/~igiddy/LBO_Note.pdf

Passport. (April 2016a). Packaged Food Company Shares.

Passport. (April 2016b). Packaged Food in the U.S.

Passport. (April 2016c). Packaged Food in Australia.

Passport. (April 2016d). Packaged Food in Asia-Pacific.

Passport. (April 2016e). Packaged Food in China.

Petersen, C. V., & Plenborg, T. (2012). *Financial Statement Analysis* (1st ed.). Edinburgh: Pearson.

Petitt, B., & Ferris, K. (2013). *Valuation for Mergers and Acquisitions.* New Jersey: Pearson Education.

Pettersen, I. (2013). *Dagligvarehandel og mat.* Norsk institutt for landbruksøkonomisk forskning. Oslo: Norsk institutt for landbruksøkonomisk forskning.

Phillips, M. (2015, December 9). *The DuPont invention that forever changed how things work in the corporate world.* Retrieved from QUARTZ: http://qz.com/569738/the-dupont-invention-that-forever-changed-how-things-work-in-the-corporate-world/

Pindur, D. (2009). *Value Creation In Successfull LBOs.* Springer Science and Business Media.

Porter, M. (March 1979). How Competitive Forces Shape Strategy. *Harvard Business Review.*

Pratt, S. P. (2002). *Cost of Capital: Estimation and Application* (2 ed.). New Jersey: John Wiley & Sons Ltd.

Private Equity Growth Capital Council. (2015). *Industry Investment Report, 2015-Q4.* Washington, DC: Private Equity Growth Capital Council.

Bibliography

Reilly, W. (1931). The law of retail gravitation. *Knickerbocker Press*.

Rienecker, L., & Jørgensen, P. S. (2011). *Den gode opgave*. Samfundslitteratur.

Rosenbaum, J., & Pearl, J. (2013). *Investmet Banking: Valuation, Leveraged Buyouts, and Mergers & Acquisitions*. Hoboken, New Jersey: John Wiley & Sons, Inc.

Sellahewa, J., & Martindale, W. (2010). The impact of food processing on the sustainability of the food supply chain. *Aspects of Applied Biology*, 91-98.

Smith, C. (2015). *How E-Commerce Is Finally Disrupting The $600 Billion-A-Year Grocery Industry*. Business Insider.

Soni, P. (15. 9 2015). *Packaged Foods Industry: Companies Are in Flux*. Hentet 1. 4 2016 fra Market Realist: http://marketrealist.com/2015/09/packaged-foods-industry-group-companies-flux/

Standard & Poor's. (2013). *Corporate Ratings Criteria*. New York: Standard & Poor's.

The J.M. Smucker Company. (2010 - 2015). *Annual Report*. The J.M. Smucker Company.

The LA Times. (1989, December 29). *The LA Times*. Retrieved May 12, 2016, from LA times: http://articles.latimes.com/1989-12-29/business/fi-1228_1_campbell-soup

The Wall Street Journal . (18. 02 2015). *The Wall Street Journal* . Hentet 29. 04 2016 fra Campbell Soup Outlines Aggressive Cost Cuts, Reorganization: http://www.wsj.com/articles/campbell-soup-to-unveil-cost-cutting-plan-1424268625

The Wall Street Journal. (2. 7 2014). *Tyson, Hillshire Finally Sign Deal to Combine*. Hentet 5. 5 2016 fra The Wall Street Journal: http://www.wsj.com/articles/tyson-hillshire-finally-sign-deal-to-combine-1404303269

Thomson One. (March 2016). *Company data*.

Tracy, S. (2012). *Qualitative Research Methods - Collecting Evidence, Crafting Analysis, Communicating impact*. Blackwell Publishing Ltd.

U.S. Department of State. (13. 1 2013). *Transatlantic Interests In Asia*. Hentet 7. 4 2016 fra U.S. Department of State: http://www.state.gov/p/eap/rls/rm/2014/01/219881.htm

U.S. Department of the Treasury. (2016, April 27). *Resource Center*. Retrieved April 27, 2016, from Treasury: https://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yieldYear&year=2015

U.S. Food and Drug Administration. (12. December 2014). *Determining the Regulatory Status of a Food Ingredient*. Hentet 1. April 2016 fra U.S. Food and Drug Administration: http://www.fda.gov/Food/IngredientsPackagingLabeling/FoodAdditivesIngredients/ucm228269.htm

United Health Foundation. (2013). *America's Health Rankings*. United Health Foundation. Washington DC: United Health Foundation.

United Nations. (1987). *Our Common Future*. New York: United Nations.

United Nations: Population Division. (2015). *World Population Prospects: Key findings & advanced tables*. New York: United Nations.

United States Department of Aricultural Economic Research Service. (2016, April). U.S. Food Expenditure.

United States of America Department of Commerce. (February 2009). *Food Processing & Packaging Machinery*. Hentet fra International Trade Administration: http://www.trade.gov/static/doc_Assess_FoodProcessingPkg_Equip.asp

Bibliography

Villalonga, B., & Amit, R. (2009, December). Family Control of Firms and Industries. *Financial Management*.

Vishwanath, V., & Mark, J. (1997, May-June). Your Brand's Best Strategy. *Harvard Business review*, pp. 123-129.

William Blair. (2013). *Food for Thought*. Chicago: William Blair.

World Bank. (2016a, March). Real GDP.

World Bank. (2016b, March). Annual Disposible Income: U.S., Australia and China.

World Health Organization. (5. January 2015). *Obesity and overweight*. Hentet 1. April 2016 fra World Health Organization: http://www.who.int/mediacentre/factsheets/fs311/en/

Yahoo! (2016, April). Historical Share Prices.

Ziobro, P., & Ng, S. (31. March 2015). *Business: Wal-Mart Ratchets Up Pressure on Suppliers to Cut Prices*. Hentet fra The Wall Street Journal: http://www.wsj.com/articles/wal-mart-ratchets-up-pressure-on-suppliers-to-cut-prices-1427845404

13 APPENDICES

A.1.　　　Campbell Soup Company – M&A history

Campbell's performs acquisition

Campbell's raises equity

Campbell's divests a company/business unit

1915 Campbell's first acquisition (Franco-American Food Company)

1948 Campbell's acquire the V8 vegetable juice brand

1950 Campbell's goes public on the New York Stock Exchange

1961 Campbell's acquire Pepperidge Farm

1966 Campbell's acquire North American distribution rights to Godiva, a premium Belgian Candy.

1974 Campbell's acquire the European Godiva companies.

1978 Campbell's acquire Vlasic Food, Inc.

1992 Campbell's acquire Arnott's Limited of Australia, a large biscuit manufactures

1995
- **Campbell's acquire Pace Foods, a leading producer of Mexican sauces.**
- **Campbell's acquire a controlling interest in a JV with Cheong Chan of Malaysia.**

1996 Campbell's acquire Erasco Group, Germany's leading canned soup company.

1997 Campbell's acquire Liebig, the leading soup brand in France.

1998
- **Campbell's acquire Fortun Foods, a market leader in premium refrigerated soups.**
- **Campbell's phase out Vlasic Foods through a spin-off.**

2008 Campbell's divests Godiva to Yildiz Holding.

2009 Pepperidge Farm acquire Ecce Panis, a leading producer of premium-quality artisan breads.

2012 Campbell's acquire Bolthouse Farms, a market leader in growing and distributing carrots, as well as super-premium juices, smoothies, protein shakes and café beverages

2013
- **Campbell's acquire Plum Organics, a leading provider of premium, organic foods and snacks.**
- **Campbell's acquires Kelsen Group, a producer of quality baked snacks.**
- **Campbell's divests its European simple meals business.**

2015 Campbell's acquire Garden Fresh Gourmet to extend presence in faster growing packaged fresh category.

Source: Authors own compilation

Initial transformation plan proposed in 2001
1. Revitalize U.S. Soup.
2. Strengthen the broader portfolio for consistent sales and earnings growth.
3. Build new growth avenues.
4. Drive a quality agenda while continuing to drive productivity.
5. Improve organization excellence and vitality.

Douglas R. Conant

Initial plan proposed in 2011
1. Stabilize and profitably grow North America Soup and Simple Meals
2. Expand international presence.
3. Continue to drive growth in Healthy Beverages and Baked Snacks

Denise M. Morrison

2001 — Launches a strategic direction to **re-energize Campbell's**

2002 — **Sales grow by 6%** (2% due to changes in price & volume) while increasing marketing costs lead to a **18% decline in net earnings**

2003 — **Sales grow by 9%** (4% due to volume & price) while **net earnings grow by 13%**

2004 — Sales and net earnings continue to grow. Three year plan a success, **launches "the next phase"** of Campbell's transformation, **aims to:**
1. Maintain current growth in net sales
2. Reduce overhead costs while upgrading operating systems
3. Maintain strong operating margins and returns

2005
2006 — Growth & margins continue to grow. **Focus on strengthening core brands through product innovation and quality.**

2007
2008
2009 —
• Continues to strengthen position in central/western Europe.
• Divests Godiva Chocolatier. Enters China & Russia with products tailored to local taste.

2010 — Wants to grow product categories and accelerate organic growth.

2011 — Launches a plan to turn Campbell's a into a truly **Global player in the food processing industry.**

2012 — **Sales are flat while earnings decline by 4%.** Emphasizes importance of sticking to plan. Enters into Strategic partnership in **Mexico**

2013 — **Strategy is simplified:** a) Strengthen core business and b) Expand in higher-growth spaces.
• Acquires: Bolthouse Farms, Plum Organics and Kelsen Group.
• Sales grow by 12% with Soup seeing higher profitability

2014 — Organic sales decline by 1% while previous acquisitions perform well.

2015 —
• Acquired: Garden Fresh Gourmet
• Exits Russia and European Simple Meals
• Focus on: Asia and joint-venture in China

Dual Strategy plan going forward

Transparency	Digitalization
Health & Wellbeing	Developing Markets
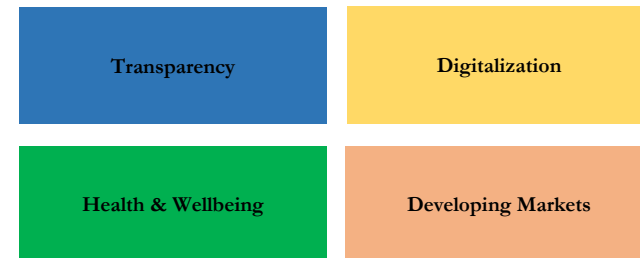
A.3.　　　　Campbell Soup Company – Executive Team

The following appendix presents a short biography of the executive management at Campbell Soup Company. The biographies are a shortened version of those found on the company website. Understanding the competencies of top level employees is an important part of an LBO assessment because a strong and competent team is needed to execute the strategies that follow such a transaction.

Denise Morrison: President and Chief Executive Officer

Denise Morrison is President and CEO of Campbell Soup Company. Denise has a distinguished track record of building strong businesses and growing iconic brands. She became Campbell's CEO in August 2011, after more than eight years at Campbell and more than 30 years in the food business. She is 12th leader in the company's 147-year history. Denise joined Campbell in 2003 as President-Global Sales and Chief Customer Officer. She then served as President-Campbell USA and Senior Vice President and President-North America Soup, Sauces and Beverages. She was named Executive Vice President and Chief Operating Officer in 2010, and she was also appointed as a Director of Campbell's board. Previously, Denise was Executive Vice President and General Manager of Kraft Foods' Snacks and Confections divisions. Her extensive food business experience also includes senior leadership roles at Nabisco, Nestle and Pepsi-Cola. She began her career at Procter & Gamble.

Mark R. Alexander

Mark R. Alexander is President-Americas Simple Meals and Beverages. He reports to Denise Morrison, President and Chief Executive Officer, and is a member of the Campbell Leadership Team. During his 25-year career with Campbell, Mark has held leadership, marketing and sales roles in the U.S., Canada, U.K., Ireland, Australia, and Hong Kong.

Previously, Mark was President-Campbell North America and prior to that President-Campbell International, responsible for the company's businesses in Asia Pacific, Europe, and Latin America.

Mark has served as Senior Vice President-Chief Customer Officer and President-North America Baking and Snacking, overseeing all of Campbell's sales teams, including those in North America, Europe, and Asia Pacific, as well as Campbell's Pepperidge Farm business. He was also President-Asia Pacific, overseeing Campbell's businesses in this region, including Arnott's Biscuits and Campbell's.

Carlos J. Barroso

Carlos Barroso joined Campbell as Senior Vice President, Global Research and Development and Quality (R&D) in July 2013. He reports to Denise Morrison, President and Chief Executive Officer. He is a member of the Campbell Leadership Team and the Campbell North America Leadership Team, and he heads the Global R&D Leadership Team.

He leads Campbell's 500 R&D employees worldwide, focusing on accelerating innovation and new product development to both strengthen the company's core businesses and expand into higher growth spaces, including new consumer segments, categories, and geographies.

Carlos has more than 20 years of global R&D having held positions at CJB & Associates, PepsiCo and Procter & Gamble (P&G).

Edward Carolan

Edward (Ed) Carolan was named Senior Vice President and President-Integrated Global Services, in 2015. Ed reports to Denise Morrison, President and Chief Executive Officer, and he is a member of the Campbell Leadership Team.

Ed leads the Integrated Global Services (IGS) organization, which consolidates transactional and knowledge-based activities to support Campbell's corporate functions and three divisions: Americas Simple Meals and Beverages, Global Biscuit and Snacks, and Packaged Fresh.

Adam G. Ciongoli
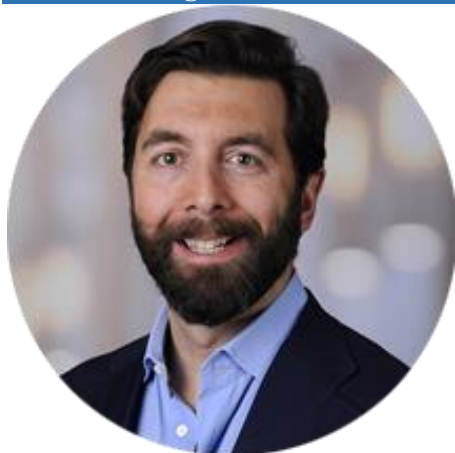
Adam G. Ciongoli was named Senior Vice President, General Counsel and Secretary, in July 2015. He reports to Denise Morrison, President and Chief Executive Officer, and he is a member of the Campbell Leadership Team.

Adam is responsible for Campbell's Legal department, Corporate Secretary function, and Government Relations team.

Anthony P. DiSilvestro

Senior Vice President and Chief Financial Officer Anthony DiSilvestro was appointed Senior Vice President and Chief Financial Officer effective May 1, 2014. He reports to Denise Morrison, President and Chief Executive Officer.

Anthony is responsible for Campbell's global finance group, encompassing controllers, treasury, external development, tax, real estate, corporate audit, investor relations, and the business unit finance functions.

Anthony joined Campbell in 1996 as Deputy Treasurer. He was promoted to Vice President-Treasurer in 1997, and named Vice President-Finance, Campbell North America, in 1999. He then served as Vice President-Strategic Planning and Corporate Development prior to becoming Vice President-Finance, Campbell International in 2002. In March 2004 he was named Vice President-Controller, where he oversaw the company's accounting functions and compliance with all financial and reporting requirements. He was appointed Campbell's Senior Vice President-Finance in April 2010, which in 2012 was expanded to include the finance responsibilities for Campbell North America.

Jeffrey T. Dunn

Jeffery T. Dunn (Jeff Dunn) was named President-Campbell Fresh in February 2015. He reports to Denise Morrison, Campbell's President and Chief Executive Officer, and he is a member of the Campbell Leadership Team.

Jeff is in charge of building the company's scale and accelerating its growth in the rapidly expanding packaged fresh segments and categories across the retail perimeter. The Campbell Fresh division includes Bolthouse Farms' portfolio of fresh carrots, super-premium beverages and salad dressings, as well as Campbell's retail refrigerated soup business.

Between 2008 and 2015, Jeff was President of Bolthouse Farms. His campaign to encourage Americans to eat baby carrots "like junk food" earned national acclaim, spurring a sustained rise in carrot sales. The company is North America's leading processor and marketer of fresh carrots, as well as the leading provider of super-premium juice, smoothies, and salad dressings.

Luca Mignini

Luca Mignini was named President-Global Biscuits and Snacks in February 2015. He reports to Denise Morrison, President and Chief Executive Officer, and is a member of the Campbell Leadership Team.

Luca directs Campbell's integrated global biscuits and snacks portfolio, including the Pepperidge Farm, Arnott's and Kelsen businesses. He is also responsible for the operation and management of the company's simple meals and beverage businesses in Asia Pacific and Asia, including soup and broth business in Hong Kong and China and the Pepperidge Farm U.S. bakery business.

Luca joined Campbell in 2013 as President, Campbell International, overseeing all aspects of Campbell's existing businesses in Europe, Asia Pacific, China and Latin America. Luca has led consumer packaged goods businesses around the world, including successfully driving growth in Latin and South America, Greater China, Europe, Asia Pacific and Eastern Europe.

Robert W. Morrissey

Bob Morrissey was named Senior Vice President and Chief Human Resources Officer in April 2012. He oversees the global human resources, global communications, and public affairs functions for Campbell and its 16,000 employees. He reports to Denise Morrison, President and Chief Executive Officer, and is a member of the Campbell Leadership Team.

Bob joined Campbell in January 2003 as Vice President-Human Resources for Global Sales. He became Vice President-Global Human Resources and the lead HR Generalist for all business units outside the U.S. in May 2004. He was named Vice President-Human Resources, Campbell USA, in August 2004, and his role was expanded to Vice President-Human Resources, North America, in November 2006.

A.4. Campbell Soup Company - Board of Directors

Lex C. Vinney - Non-Executive Chairman of the Board

Mr. Vinney is the former Senior Advisor (2007-2009) and former President and Chief Executive Officer of STERIS Corporation (2000-2007), a leading provider of medical supplies. Prior to joining STERIS in 1999, he was Senior Vice President and Chief Financial Officer of The B.F. Goodrich Company. He began his career in 1972 in financial management at Exxon and in 1982 he joined Engelhard Corporation where he held a number of senior operating and financial management positions. Mr. Vinney was elected to the Board of Directors in 2003, and became non-executive Chairman of the Board on November 1, 2015.

Randall W. Larrimore

Mr. Larrimore was non-executive Chairman of Olin Corporation from 2003 to 2005. He was President and Chief Executive Officer of United Stationers, Inc. from 1997 to 2002. Mr. Larrimore was President and Chief Executive Officer of Master Brand Industries, Inc. from 1988 to 1997. He was elected to the Board of Directors in 2002.

March B. Lautenbach

Mr. Lautenbach has served as President and Chief Executive Officer of Pitney Bowes Inc. since December 2012, and is a member of the Pitney Bowes board of directors. Before joining Pitney Bowes, he spent 27 years in senior leadership roles at IBM, most recently serving as Managing Partner, North America, IBM Global Business Services. During his tenure at IBM, Mr. Lautenbach was General Manager of the Americas from 2005 to 2010. Prior to that, he served as General Manager of Global Small and Medium Business from 2000 to 2005, and Vice President of Small and Medium Business in Asia-Pacific from 1998 to 2000. Mr. Lautenbach was elected to the Board of Directors in June 2014.

Sara Mathew

Ms. Mathew was Chairman and Chief Executive Officer of The Dun & Bradstreet Corporation from 2010 until October 2013. Before assuming the role of CEO, she held a number of roles with The Dun & Bradstreet Corporation, including: President and Chief Operating Officer (2009-2007), Chief Financial Officer (2001-2007), President–U.S. (2006-2007), and President–International (2006). She previously held a number of executive positions with Procter & Gamble from 1983 through 2001. Ms. Mathew was elected to the Board of Directors in 2005.

Mary Alice D. Malone

Ms. Malone is a private investor and the President of Iron Spring Farm. She was elected to the Board of Directors in 1990.

Keith R. McLoughlin

Mr. McLoughlin is the former President and Chief Executive Officer of AB Electrolux, a role he held from 2011 until his retirement in January of 2016. He joined AB Electrolux in 2003 as head of Major Appliances North America and Executive Vice President of AB Electrolux. Between 2004 and 2007, he also served as head of Major Appliances Latin America. From 2009 until 2011, McLoughlin served as Chief Operations Officer and Executive Vice President, AB Electrolux. Before joining AB Electrolux, McLoughlin spent 22 years at E. I. du Pont de Nemours and Company. Mr. McLoughlin was elected to the Board of Directors in February 2016.

Charles R. Perrin

Mr. Perrin was the non-executive Chairman of Warnaco Group, Inc. from March 2004 until February 2013. He was Chairman and Chief Executive Officer of Avon Products, Inc. from 1998 to 1999, and Chairman and Chief Executive Officer of Duracell International, Inc. from 1994 to 1996. Mr. Perrin was elected to the Board of Directors in 1999.

Nick Shreibes

Mr. Shreiber provides management consulting services to corporations and mentors senior executives on issues relating to leadership, organization and strategy. He was President and Chief Executive Officer of the Tetra Pak Group from 2000 to 2005, a privately-held global company headquartered in Switzerland, where he spent a total of 18 years. Prior to joining Tetra Pak, he was a partner with McKinsey & Co. from 1979 to 1987, with engagement responsibility for major clients in Europe and Latin America. Mr. Shreiber was elected to the Board of Directors in 2009.

Tracey T. Travis

Ms. Travis is the Executive Vice President and Chief Financial Officer for The Estée Lauder Companies Inc. She previously served as Senior Vice President of Finance and Chief Financial Officer at Ralph Lauren Corporation from 2005 until July 2012, as Senior Vice President of Finance for Limited Brands, Inc. from 2002 to 2004, and as Chief Financial Officer of Intimate Brands, Inc. from 2001 to 2002. She began her career as an engineer with General Motors Corporation in 1983, and went on to work in various financial roles. Ms. Travis was elected to the Board of Directors in 2011.

Archbold D. van Beuren

Mr. van Beuren was formerly Senior Vice President and President — Global Sales and Chief Customer Officer of Campbell Soup Company from 2007 to October 2009. He began his career with the Company in 1983 and served in various positions of increasing responsibility including President of Godiva Chocolatier and President of a Division responsible for North America Foodservice and the Company's Canadian, Mexican and Latin American businesses. Mr. van Beuren was elected to the Board of Directors in 2009.

Bennett Dorrance

Mr. Dorrance is a private investor and Managing Director and co-founder of DMB Associates. He was elected to the Board of Directors in 1989.

Degree of "Premium" and Campbell's market position in U.S. market

Hitch hikers

High Road

Baby Food

Biscuits &
Snacks

Ready
Meals

Baked Goods

Ice
Cream &
Frozen
Desserts

Juice

Sauces,
Dressings,
etc.

Soup

"Premium" degree of category

Rice,
Pasta &
Noodles

Processed
Meats &
Seafood

Dead end

Low Road

Relative Market Size (RMS)
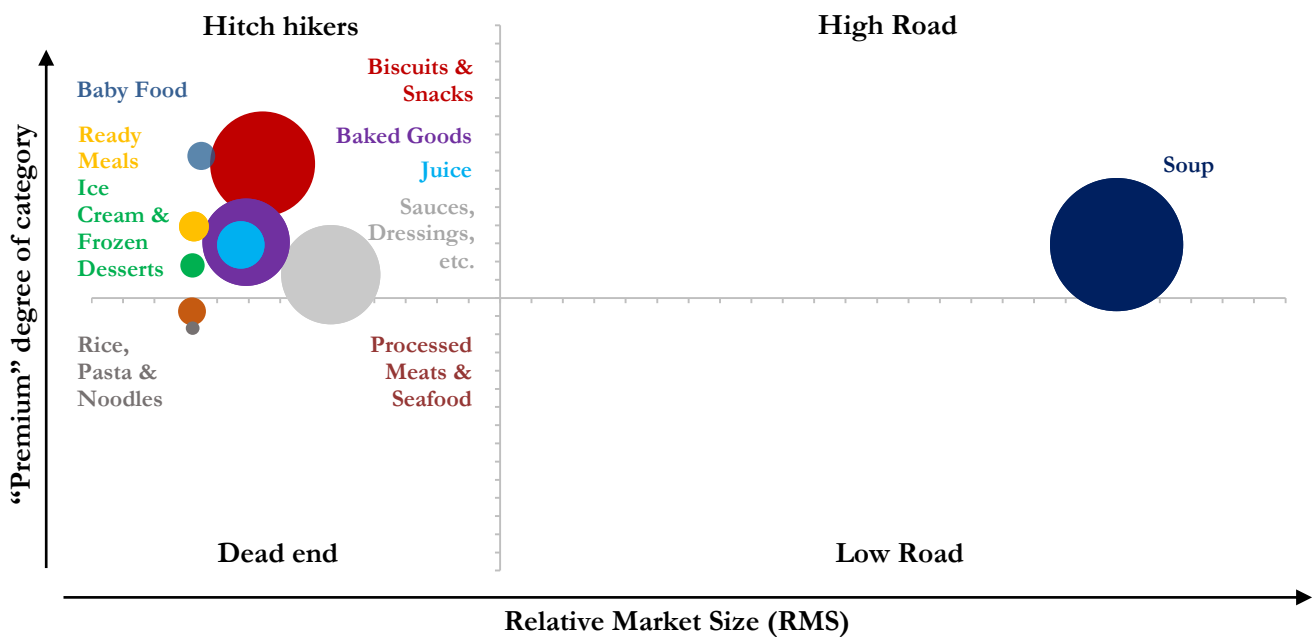
Source: Authors own compilation, based on data from (Passport 2016) and (Vishwanath & Mark, 1997)

Degree of "Premium and Campbell's market position in Australian market
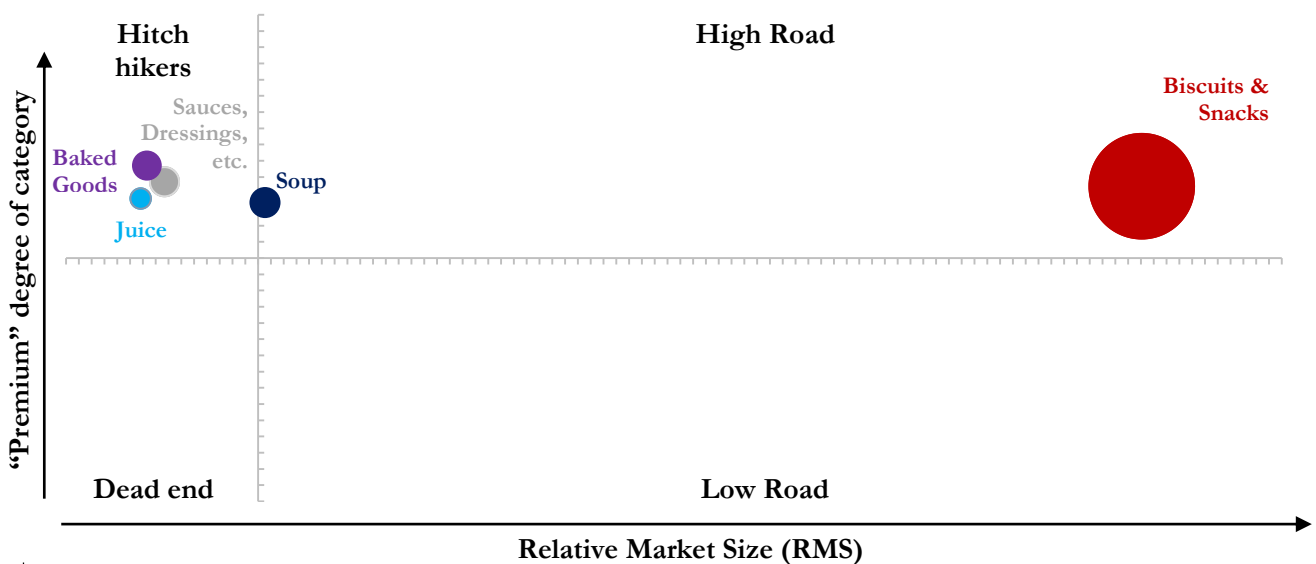
Hitch
hikers

High Road

Sauces,
Dressings,
etc.

Biscuits &
Snacks

Baked
Goods

Soup

"Premium" degree of category

Juice

Dead end

Low Road

Relative Market Size (RMS)

Source: Authors own compilation, based on data from (Passport 2016) and (Vishwanath & Mark, 1997)

Adjusted net national income per capita (constant 2005 US$)

	Historical development													
	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
United States	**35.220**	**35.329**	**35.542**	**35.951**	**36.931**	**37.557**	**38.489**	**38.075**	**36.665**	**36.053**	**36.935**	**37.402**	**38.490**	**39.114**
Y-o-Y growth (%)		0.31	0.60	1.15	2.73	1.70	2.48	-1.08	-3.70	-1,67	2,45	1,26	2,91	1,62
Australia	**23.451**	**23.835**	**24.731**	**25.152**	**26.074**	**26.280**	**26.822**	**27.420**	**27.909**	**29.294**	**28.707**	**29.992**	**31.260**	**31.031**
Y-o-Y growth (%)		1.64	3.76	1.70	3.67	0.79	2.06	2.23	1.78	4.96	-2.00	4.48	4.23	-0.73
China	**800**	**877**	**962**	**1.078**	**1.233**	**1.411**	**1.675**	**2.132**	**2.653**	**3.060**	**3.531**	**4.240**	**4.892**	**5.470**
Y-o-Y growth (%)		9.51	9.69	12.07	14.47	14.38	18.71	27.31	24.41	15.36	15.39	20.09	15.38	11.81

Source: World Bank Data (2016i)

	Forecasted development						
	2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
United States	**40.561**	**41.372**	**42.862**	**44.276**	**45.826**	**47.430**	**48.995**
Y-o-Y growth (%)	3.70	2.00	3.60	3.30	3.50	3.50	3.30
Australia	**31.838**	**32.602**	**33.580**	**34.823**	**36.181**	**37.556**	**38.908**
Y-o-Y growth (%)	2.60	2.40	3.00	3.70	3.90	3.80	3.60
China	**5.995**	**6.463**	**6.967**	**7.496**	**7.961**	**8.542**	**9.183**
Y-o-Y growth (%)	9.60	7.80	7.80	7.60	6.20	7.30	7.50

Source: Euromonitor Passport (2016i)

Consumer Expenditure on Food and Non-Alcoholic Beverages (constant 2005 US$)

	Historical development														
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
United States	**201**	**211**	**239**	**253**	**270**	**288**	**338**	**404**	**419**	**461**	**553**	**605**	**650**	**703**	**750**
Y-o-Y growth (%)		4.67	13.52	5.81	6.56	6.86	17.27	19.46	3.79	10.07	19.87	9.38	7.50	8.09	6.69
Australia	**1.693**	**1.706**	**1.771**	**1.856**	**1.948**	**2.018**	**2.108**	**2.197**	**2.164**	**2.186**	**2.284**	**2.313**	**2.347**	**2.386**	**2.390**
Y-o-Y growth (%)		0.75	3.83	4.76	4.98	3.58	4.50	4.21	-1.52	1.03	4.49	1.27	1.46	1.64	0.19
China	**1.771**	**1.853**	**1.936**	**2.010**	**2.110**	**2.262**	**2.370**	**2.543**	**2.529**	**2.585**	**2.675**	**2.745**	**2.794**	**2.860**	**2.910**
Y-o-Y growth (%)		4.67	4.45	3.85	4.96	7.21	4.76	7.32	-0.56	2.22	3.45	2.63	1.78	2.36	1.76

Source: World Bank Data (2016i)

	Forecasted development				
	2016	2017	2018	2019	2020
United States	**802**	**858**	**907**	**971**	**1.044**
Y-o-Y growth (%)	6,91%	6,98%	5,77%	7,01%	7,55%
Australia	**2.475**	**2.557**	**2.643**	**2.731**	**2.817**
Y-o-Y growth (%)	3,54%	3,33%	3,35%	3,33%	3,16%
China	**2.978**	**3.068**	**3.166**	**3.263**	**3.361**
Y-o-Y growth (%)	2,33%	3,03%	3,18%	3,08%	3,00%

Source: Euromonitor Passport (2016i)

A.7. Campbell Soup Company – Reported Financial Statements

Consolidated Historical Income Statement

USD millions	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	H1. 2016
Total Net Sales	5.771	6.133	6.678	7.109	7.072	7.343	7.385	7.998	7.586	7.676	7.143	7.175	8.052	8.268	8.082	4.404
Year-on-Year Growth %	2,6%	6,3 %	8,9 %	6,5 %	-0,5 %	3,8 %	0,6 %	8,3 %	-5,2 %	1,2 %	-6,9 %	0,4 %	12,2 %	2,7 %	- 2,2%	
Cost of Product Sold (COGS) *D&A deducted*	2.866	3.124	3.562	3.927	3.900	3.984	4.101	4.533	4.294	4.275	3.987	4.103	4.733	5.065	4.974	2.678
Gross Profit	2.905	3.009	3.116	3.182	3.172	3.359	3.284	3.465	3.292	3.401	3.156	3.072	3.319	3.203	3.108	1.726
Gross Margin	50%	49%	47%	45%	45%	46%	44%	43%	43%	44%	44%	43%	41%	39%	38%	39%
Marketing and Selling Expenses	890	1.073	1.145	1.153	1.153	1.227	1.106	1.162	1.077	1.058	909	941	947	935	878	449
Administrative Expenses	403	454	507	542	520	583	571	608	591	605	577	580	677	573	593	302
Research and Development Expenses	64	79	88	93	93	104	111	115	114	123	120	116	128	121	113	55
Other Expenses	78	99	28	13	5	5	30	13	61	4	10	11	29	22	24	9
Restructuring Charges	10	1	0	32	0	0	0	175	0	12	60	7	51	55	102	30
Total Operating Expenses	1.445	1.706	1.768	1.807	1.761	1.919	1.758	2.073	1.843	1.802	1.676	1.655	1.832	1.706	1.710	845
EBITDA	1.460	1.303	1.348	1.375	1.411	1.440	1.526	1.392	1.449	1.599	1.480	1.417	1.487	1.497	1.398	881
EBITDA Margin	25,3 %	21,2 %	20,2 %	19,3 %	20,0 %	19,6 %	20,7 %	17,4 %	19,1 %	20,8 %	20,7 %	19,7 %	18,5 %	18,1 %	17,3 %	20,0 %
Depreciation & Amortization	266	319	243	260	279	289	283	294	264	251	268	262	407	305	303	152
Earnings before Interest and Taxes (EBIT)	1.194	984	1.105	1.115	1.132	1.151	1.243	1.098	1.185	1.348	1.212	1.155	1.080	1.192	1.095	729
EBIT Margin (Profit margin before tax)	20,7 %	16,0 %	16,5 %	15,7 %	16,0 %	15,7 %	16,8 %	13,7 %	15,6 %	17,6 %	17,0 %	16,1 %	13,4 %	14,4 %	13,5 %	16,6 %
Tax on Operating Activities	409	337	356	353	366	283	347	313	381	432	387	358	311	385	331	132
NOPAT	785	647	749	762	766	868	896	785	804	916	825	797	769	807	764	597

Appendices

NOPAT Marging (Profit margin after tax)	14%	11%	11%	11%	11%	12%	12%	10%	11%	12%	12%	11%	10%	10%	9%	14%
Interest Expense	219	190	186	174	184	165	163	167	110	112	122	114	135	122	108	
Interest Income	12	4	5	6	4	15	19	8	4	6	10	8	10	3	3	
Net Financial Expenses before Tax	**207**	**186**	**181**	**168**	**180**	**150**	**144**	**159**	**106**	**106**	**112**	**106**	**125**	**119**	**105**	**55**
Tax Shield	71	64	58	53	58	37	40	45	34	34	36	33	36	38	32	10
Earnings before cumulative effect of accounting change	**649**	**525**	**626**	**647**	**644**	**755**	**792**	**671**	**732**	**844**	**749**	**724**	**680**	**726**	**691**	**552**
Net Earnings attributable to Non-controlling Interests											3	10	9	11		
Earnings from Discontinued Operations					63	11	62	494	4	0	53	40	231	81		
Cumulative effect of change in Accounting Principles	0	0	31	0	0											
Net Earnings	**649**	**525**	**595**	**647**	**707**	**766**	**854**	**1165**	**736**	**844**	**799**	**754**	**440**	**796**	**691**	**552**

Calculation of taxes																
Effetive Tax Rate	34,2 %	34,2 %	32,2 %	31,7 %	32,4 %	24,6 %	27,9 %	28,5 %	32,2 %	32,0 %	31,9 %	31,0 %	28,8 %	32,3 %	30,2 %	18,1 %
Reported Tax Payed	338	273	298	300	308	246	307	268	347	398	351	325	275	347	299	122
Tax on Non-Operating Activities	71	64	58	53	58	37	40	45	34	34	36	33	36	38	32	10
Tax on Operating Activities	**409**	**337**	**356**	**353**	**366**	**283**	**347**	**313**	**381**	**432**	**387**	**358**	**311**	**385**	**331**	**132**

Consolidated Historical Balance Sheet Statements

USD millions	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	H1. 2016
Cash and Cash Equivalents	**24**	**21**	**32**	**32**	**40**	**657**	**71**	**81**	**51**	**254**	**484**	**335**	**333**	**232**	**253**	**306**
Customers	441	431	425	503	509	489	564	526	485	483	530	523	587	597	570	
Allowances for cash discounts and bad debts	28	36	40	39	36	24	33	28	19	17	11	10	11	12	13	
Other	29	22	28	26	36	29	50	72	62	46	41	40	59	85	90	
Accounts Receivable	**442**	**417**	**413**	**490**	**509**	**494**	**581**	**570**	**528**	**512**	**560**	**553**	**635**	**670**	**647**	**770**
Raw Materials, Containers & Supplies	216	231	264	292	278	252	289	320	324	261	261	277	364	399	427	
Finished products	381	407	445	497	488	476	486	509	500	463	506	437	561	617	566	
Less; Adjustment to LIFO valuation method				7	13											
Total Inventory	**597**	**638**	**709**	**782**	**753**	**728**	**775**	**829**	**824**	**724**	**767**	**714**	**925**	**1.016**	**993**	**855**
Deferred taxes	94	86	90	117	114	78	97	96	100	128	112	104	90	96	115	
Other	46	37	46	47	67	55	54	76	38	53	39	30	36	71	52	
Other Current Assets	**140**	**123**	**136**	**164**	**181**	**133**	**151**	**172**	**138**	**181**	**151**	**134**	**126**	**167**	**167**	**201**
Fair value of derivatives *(Moved from Other Current Assets)*									10	16	1	35	9	15	32	
Current Assets of Discontinued Operations held for Sale						100		41					193			
Total Current Assets	**1.203**	**1.199**	**1.290**	**1.468**	**1.483**	**2.112**	**1.578**	**1.693**	**1.551**	**1.687**	**1.963**	**1.771**	**2.221**	**2.100**	**2.092**	**2.132**
Land	50	53	66	70	69	56	66	63	59	61	64	62	59	62	57	
Buildings	840	868	974	1.009	1.062	1.052	1.152	1.103	1.111	1.182	1.224	1.260	1.349	1.384	1.416	
Machinery & Equipment	2.354	2.482	2.827	2.977	3.172	3.144	3.400	3.415	3.481	3.651	3.896	3.963	4.017	3.856	3.802	
Projects in progress	133	230	145	192	208	245	191	185	242	149	179	198	230	217	238	
Accumulated Depreciation	1.740	1.949	2.169	2.347	2.524	2.543	2.767	2.827	2.916	2.992	3.260	3.356	3.395	3.201	3.166	

Appendices

Total Plant Assets, Net of Depreciation	1.637	1.684	1.843	1.901	1.987	1.954	2.042	1.939	1.977	2.051	2.103	2.127	2.260	2.318	2.347	2.340
Goodwill		1.581	1.803	1.900	1.950	1.765	1.872	1.998	1.901	1.919	2.133	2.013	2.297	2.433	2.344	2.318
Purchase price in excess of net assets of businesses acquired (goodwill)	1.856															
Trademarks	890															
Other Intangibles	11															
Accumulated Amortization	306															
Intangible Assets, Net of Amortization	2.451	953	1.018	1.095	1.059	596	615	605	522	509	527	496	1.021	1.175	1.205	1.193
Investments *(Moved from Other Assets)*	215	198	160	150	150	22	17	8								
Fair value of derivatives *(Moved from Other Assets)*									25	34	20	10	23		22	
Prepaid Pension Benefit Cost	396	51	49	103	75	388	246	121								
Intangible Pension Assets																
Deferred taxes					6	1	8	20	24	21	47	49	27	32	25	
Other	25	55	42	45	66	69	67	62	56	55	69	64	81	55	54	
Other Assets	421	106	91	148	147	458	321	203	80	76	116	113	108	87	79	96
Non-current Assets of Discontinuated Operations held for Sale						838		28					393			
Total Assets	5.927	5.721	6.205	6.662	6.776	7.745	6.445	6.474	6.056	6.276	6.862	6.530	8.323	8.113	8.089	8.079

USD millions	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	H1. 2016
Commercial paper	1.789	886	668	790	428	419	546	661	350	96	563	352	1.162	1.406	1.532	1.293
Current portion of long term debt	6	301	600			606		300		700		400	700	300		
Variable -rate bank borrowings	11	9	11	14	18	67	44	18	24	34	92	30	44	47	1	
Fixed-rate bank borrowings				6	5	5	5	3	4	1	1			17	9	
Capital leases										1	1		2	1	1	
Other										3		4	1			
Short-term borrowing																
Notes Payable	**1.806**	**1.196**	**1.279**	**810**	**451**	**1.097**	**595**	**982**	**378**	**835**	**657**	**786**	**1.909**	**1.771**	**1.543**	**1.293**
Payable to suppliers & Others	**582**	**612**	**620**	**607**	**624**	**691**	**694**	**655**	**569**	**545**	**585**	**571**	**523**	**527**	**544**	**502**
Fair value of derivatives *(Moved from accrued liabilities)*					**12**	**184**	**13**	**42**	**19**	**2**	**37**	**29**	**35**	**17**	**12**	
Accrued interest *(Moved from accrued liabilities)*					**94**	**76**	**52**	**41**	**43**	**47**	**32**	**31**	**41**	**37**	**35**	
Accrued compensation and benefits					187	225	262	225	236	229	262	267	270	237	255	
Accrued trade and consumer promotion programs					96	118	116	127	112	129	132	140	137	122	125	
Restructuring								37	4	1	39	16	21	31	54	
Other					217	217	179	183	165	152	117	115	113	109	108	
Accrued Liabilities	**450**	**572**	**602**	**594**	**500**	**560**	**557**	**572**	**517**	**511**	**550**	**538**	**541**	**499**	**542**	**596**
Dividend Payable	**92**	**65**	**65**	**65**	**70**	**74**	**77**	**81**	**88**	**95**	**95**	**93**	**100**	**101**	**101**	**100**
Accrued Income Taxes	**190**	**233**	**217**	**250**	**251**	**121**	**42**	**9**	**14**	**30**	**33**	**22**	**19**	**37**	**29**	**75**
Current Liabilities of Discontinuated Operations held for Sale						78		21					114			
Total Current Liabilities	**3.120**	**2.678**	**2.783**	**2.326**	**2.002**	**2.881**	**2.030**	**2.403**	**1.628**	**2.065**	**1.989**	**2.070**	**3.282**	**2.989**	**2.806**	**2.566**
Long Term Debt	**2.243**	**2.449**	**2.249**	**2.543**	**2.542**	**2.116**	**2.074**	**1.633**	**2.246**	**1.945**	**2.427**	**2.004**	**2.544**	**2.244**	**2.552**	**2.551**

Appendices

Non-pension Post Retierment Benefits	336	319	304	298	278											
Postemployment benefits *(Moved from Other Liabilities)*	349	334	323	313	300	278	424	441	969	832	663	1.004	551	529	595	
Fair value of derivatives *(Moved from Other Liabilities)*				151	174	70	77	80	19	22	90	54	1	6	8	
Deferred taxes	303	188	245	332	342	419	354	354	237	258	367	298	489	548	505	
Deferred compensation	123	121	102	108	116	137	150	150	142	149	144	96	112	109	104	
Other	36	65	116	15	30	51	41	35	34	31	35	56	72	62	68	
Unrecognized tax benefit								59	50	45	51	50	40	23	26	
Restructuring															49	
Other Liabilities	462	374	463	455	488	607	545	598	463	483	597	500	713	742	752	1.438
Non-current Liabilities of Discontinuated Operations held for Sale						25		1					22			
Total Liabilities	6.174	5.835	5.818	5.788	5.506	5.977	5.150	5.156	5.325	5.347	5.766	5.632	7.113	6.510	6.713	6.555
Shareowners Equity																
Preffered Stock; authorized 40 shares; non-issued																
Capital Stock, $. 0375 par value; Authorized 560 shares	20	20	20	20	20	20	20	20	20	20	20	20	12	12	12	12
Capital Surplus / Additional paid-in-capital	314	320	298	264	236	352	331	337	332	341	331	329	362	330	339	328
Earnings Retained in the Business	4.651	4.918	5.254	5.642	6.069	6.539	7.082	7.909	8.288	8.760	9.185	9.584	1.772	2.198	2.494	2.017
Captial Stock in Treasury, 132 shares in 2002 & 133 shares in 2001, at cost	4.908	4.891	4.869	4.848	4.832	5.147	6.015	6.812	7.194	7.459	8.021	8.259	364	356	556	608
Accumulated other Comprehensive Loss	324	481	316	204	223	4	123	136	718	736	427	776	565	569	909	223
Total Shareowners Equity	247	114	387	874	1.270	1.768	1.295	1.318	728	926	1.088	898	1.217	1.615	1.380	1.526
Noncontrolling interests									3	3	8		7	12	4	2
Total Equity	247	114	387	874	1.270	1.768	1.295	1.318	731	929	1.096	898	1.210	1.603	1.376	1.524
Total Liabilities and Shareowner Equity	5.927	5.721	6.205	6.662	6.776	7.745	6.445	6.474	6.056	6.276	6.862	6.530	8.323	8.113	8.089	8.079

A.8. Campbell Soup Company – Analytical Financial Statements

Analytical Historical Balance Sheet

USD millions	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	H1. 2016
Intangible & Tangible Assets	**4.328**	**4.471**	**4.866**	**5.091**	**5.212**	**5.244**	**4.613**	**4.640**	**4.456**	**4.534**	**4.832**	**4.700**	**6.052**	**5.981**	**5.950**	**5.947**
Non-Current Assets																
Goodwill		1.581	1.803	1.900	1.950	1.765	1.872	1.998	1.901	1.919	2.133	2.013	2.297	2.433	2.344	2.318
Intangible Assets, Net of Amortization	2.451	953	1.018	1.095	1.059	596	615	605	522	509	527	496	1.021	1.175	1.205	1.193
Total Plant Assets, Net of Depreciation	1.637	1.684	1.843	1.901	1.987	1.954	2.042	1.939	1.977	2.051	2.103	2.127	2.260	2.318	2.347	2.340
Investments (Moved from Other Assets)	215	198	160	150	150	22	17	8								
Deferred taxes					6	1	8	20	24	21	47	49	27	32	25	
Other	25	55	42	45	66	69	67	62	56	55	69	64	81	55	54	96
Non-current Assets of Discontinued Operations held for Sale						838		28					393			
Total Non-Current Assets	**4.328**	**4.471**	**4.866**	**5.091**	**5.218**	**5.245**	**4.621**	**4.660**	**4.480**	**4.555**	**4.879**	**4.749**	**6.079**	**6.013**	**5.975**	**5.947**
Current Assets																
Total Inventory	597	638	709	782	753	728	775	829	824	724	767	714	925	1.016	993	855
Accounts Receivable	442	417	413	490	509	494	581	570	528	512	560	553	635	670	647	770
Other Current Assets	140	123	136	164	181	133	151	172	138	181	151	134	126	167	167	201
Current Assets of Discontinued Operations held for Sale						100		41					193			
Total Current Assets	**1.179**	**1.178**	**1.258**	**1.436**	**1.443**	**1.455**	**1.507**	**1.612**	**1.490**	**1.417**	**1.478**	**1.401**	**1.879**	**1.853**	**1.807**	**1.826**

Non-Interest Bearing Debt

Accrued Income Taxes	190	233	217	250	251	121	42	9	14	30	33	22	19	37	29	75
Deferred taxes (from Other Liabilities)	303	188	245	332	342	419	354	354	237	258	367	298	489	548	505	
Unrecognized tax benefit (from Other Liabilities)									59	50	45	51	50	40	23	26
Other Liabilities	159	186	218	123	146	188	191	185	176	180	179	152	184	171	221	1.438
Payable to suppliers & Others	582	612	620	607	624	691	694	655	569	545	585	571	523	527	544	502
Dividend Payable	92	65	65	65	70	74	77	81	88	95	95	93	100	101	101	100
Accrued Liabilities	450	572	602	594	500	560	557	572	517	511	550	538	541	499	542	596
Total Non-Interest Bearing debt	**1.776**	**1.856**	**1.967**	**1.971**	**1.933**	**2.053**	**1.915**	**1.915**	**1.651**	**1.664**	**1.860**	**1.724**	**1.896**	**1.906**	**1.968**	**2.711**
Net Working Capital	**597**	**678**	**709**	**535**	**484**	**597**	**400**	**283**	**137**	**226**	**335**	**274**	**10**	**21**	**136**	**885**
Invested Capital, Net Operating Assets	**3.731**	**3.793**	**4.157**	**4.556**	**4.728**	**4.647**	**4.213**	**4.357**	**4.319**	**4.308**	**4.497**	**4.426**	**6.062**	**5.960**	**5.814**	**5.062**
Total Equity	**247**	**114**	**387**	**874**	**1.270**	**1.768**	**1.295**	**1.318**	**731**	**929**	**1.096**	**898**	**1.210**	**1.603**	**1.376**	**1.524**
Interest Bearing Debt																
Notes Payable	1.806	1.196	1.279	810	451	1.097	595	982	378	835	657	786	1.909	1.771	1.543	1.293
Long Term Debt	2.243	2.449	2.249	2.543	2.542	2.116	2.074	1.633	2.246	1.945	2.427	2.004	2.544	2.244	2.552	2.551
Postemployment benefits (Moved from Other Liabilities)	349	334	323	313	300	278	424	441	969	832	663	1.004	551	529	595	
Non-current Liabilities of Discontinued Operations held for Sale						25		1						22		
Accrued interest (Moved					94	76	52	41	43	47	32	31	41	37	35	

Appendices

from accrued liabilities)																
Fair value of derivatives (Moved from accrued liabilities)					12	184	13	42	19	2	37	29	35	17	12	
Fair value of derivatives (Moved from Other Liabilities)				151	174	70	77	80	19	22	90	54	1	6	8	
Current Liabilities of Discontinued Operations held for Sale						78		21						114		
Total: Interest Bearing Debt	**4.398**	**3.979**	**3.851**	**3.817**	**3.573**	**3.924**	**3.235**	**3.241**	**3.674**	**3.683**	**3.906**	**3.908**	**5.217**	**4.604**	**4.745**	**3.844**
Interest Bearing Assets																
Fair value of derivatives (Moved from Other Current Assets)									10	16	1	35	9	15	32	
Fair value of derivatives (Moved from Other Assets)									25	34	20	10	23		22	
Prepaid Pension Benefit Cost	396	51	49	103	75	388	246	121								
Intangible Pension Assets																
Cash and Cash Equivalents	24	21	32	32	40	657	71	81	51	254	484	335	333	232	253	306
Total: Interest Bearing Assets	**420**	**72**	**81**	**135**	**115**	**1.045**	**317**	**202**	**86**	**304**	**505**	**380**	**365**	**247**	**307**	**306**
Net Interest Bearing Debt	**3.978**	**3.907**	**3.770**	**3.682**	**3.458**	**2.879**	**2.918**	**3.039**	**3.588**	**3.379**	**3.401**	**3.528**	**4.852**	**4.357**	**4.438**	**3.538**
Invested Capital, Net Operating Liabilities	**3.731**	**3.793**	**4.157**	**4.556**	**4.728**	**4.647**	**4.213**	**4.357**	**4.319**	**4.308**	**4.497**	**4.426**	**6.062**	**5.960**	**5.814**	**5.062**

A.9.　　　　　Segmentation of Net Sales

Euromonitor Retail Sales Data for Campbell Soup Company										
Data in millions	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
U.S. Market [US dollar]										
Soup	2.430	2.417	2.551	2.362	2.277	2.192	2.188	2.162	2.141	2.195
Biscuits & Snacks	967	971	1.011	1.064	1.117	1.150	1.222	1.277	1.284	1.361
Sauces, Dressings etc.	1.081	1.092	1.109	1.164	1.099	1.074	1.095	1.153	1.216	1.263
Baked Goods	767	832	787	862	880	885	877	935	934	947
Juice	570	614	673	657	649	638	765	754	775	769
Ready Meals	269	259	241	194	186	138	126	117	114	110
Baby Food	0	1	2	3	7	31	74	89	92	97
Processed Meats and Seafood	133	143	143	130	130	129	134	115	96	96
Ice Cream & Frozen Desserts	83	86	88	91	86	88	90	91	81	74
Rice, Pasta, Noodles	37	35	33	30	28	29	29	28	25	23
Australian [Australian dollar]										
Soup	105	114	130	138	142	139	133	115	98	89
Biscuits & Snacks	745	775	807	830	907	970	1.007	1.002	1.026	1.036
Sauces, Dressings etc.	41	47	50	55	61	65	69	79	85	88
Baked Goods	40	41	38	44	46	70	88	84	83	82
Juice	26	30	31	31	31	34	34	41	45	47

Source: Authors own compilation based on data from Euromonitor Passport 2016

Retails Sales Distribution Data for Campbell Soup Company										
Data in millions	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
U.S. Market [US dollar]										
Soup	38.3%	37.5%	38.4%	36.0%	35.3%	34.5%	33.1%	32.2%	31.7%	31.7%
Biscuits & Snacks	15.3%	15.1%	15.2%	16.2%	17.3%	18.1%	18.5%	19.0%	19.0%	19.6%
Sauces. Dressings etc.	17.1%	16.9%	16.7%	17.8%	17.0%	16.9%	16.6%	17.2%	18.0%	18.2%
Baked Goods	12.1%	12.9%	11.9%	13.2%	13.6%	13.9%	13.3%	13.9%	13.8%	13.7%
Juice	9.0%	9.5%	10.1%	10.0%	10.1%	10.0%	11.6%	11.2%	11.5%	11.1%
Ready Meals	4.2%	4.0%	3.6%	3.0%	2.9%	2.2%	1.9%	1.7%	1.7%	1.6%
Baby Food	0.0%	0.0%	0.0%	0.1%	0.1%	0.5%	1.1%	1.3%	1.4%	1.4%
Processed Meats and Seafood	2.1%	2.2%	2.1%	2.0%	2.0%	2.0%	2.0%	1.7%	1.4%	1.4%
Ice Cream & Frozen Desserts	1.3%	1.3%	1.3%	1.4%	1.3%	1.4%	1.4%	1.4%	1.2%	1.1%
Rice. Pasta. Noodles	0.6%	0.5%	0.5%	0.5%	0.4%	0.5%	0.4%	0.4%	0.4%	0.3%
Australian [Australian dollar]										
Soup	11.0%	11.4%	12.3%	12.6%	12.0%	10.9%	10.0%	8.7%	7.3%	6.6%
Biscuits & Snacks	77.8%	77.0%	76.5%	75.7%	76.4%	75.9%	75.7%	75.8%	76.8%	77.3%
Sauces. Dressings etc.	4.3%	4.7%	4.8%	5.0%	5.1%	5.1%	5.2%	6.0%	6.3%	6.6%
Baked Goods	4.1%	4.1%	3.6%	4.0%	3.9%	5.4%	6.6%	6.4%	6.2%	6.1%
Juice	2.7%	2.9%	2.9%	2.8%	2.6%	2.6%	2.5%	3.1%	3.4%	3.5%

Source: Authors own compilation

Appendices

Campbell Soup Company Revenue split by Retail Sales Distribution										
Data in millions	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
U.S. Market	**5.120**	**5.133**	**5.448**	**5.548**	**5.436**	**5.309**	**5.359**	**6.195**	**6.432**	**6.400**
	5,7%	*0,3%*	*6,1%*	*1,8%*	*-2,0%*	*-2,3%*	*0,9%*	*15,6%*	*3,8%*	*-0,5%*
Soup	1.963	1.923	2.094	1.999	1.916	1.832	1.776	1.993	2.038	2.026
Biscuits & Snacks	781	773	830	900	940	961	992	1.177	1.222	1.256
Sauces, Dressings etc.	873	869	910	985	925	897	889	1.063	1.157	1.165
Baked Goods	619	662	646	730	740	739	712	862	889	874
Juice	460	489	553	556	546	533	621	695	737	710
Ready Meals	218	206	197	164	157	115	102	108	109	102
Baby Food	0	1	1	3	6	26	60	82	87	90
Processed Meats and Seafood	107	114	117	110	109	108	109	106	91	89
Ice Cream & Frozen Desserts	67	69	72	77	72	73	73	84	77	68
Rice, Pasta, Noodles	30	28	27	25	24	25	23	26	24	21
Australian	**988**	**965**	**1.074**	**816**	**978**	**842**	**819**	**801**	**709**	**646**
	-3,9%	*-2,3%*	*11,3%*	*-24,0%*	*19,9%*	*-13,9%*	*-2,7%*	*-2,2%*	*-11,5%*	*-8,9%*
Soup	108	110	132	103	117	92	82	70	52	43
Biscuits & Snacks	769	743	821	617	747	639	620	607	544	499
Sauces, Dressings etc.	43	45	51	41	50	43	43	48	45	42
Baked Goods	41	39	38	32	38	46	54	51	44	39
Juice	27	28	31	23	26	22	21	25	24	23
Other countries	**1.235**	**1.287**	**1.476**	**1.222**	**1.262**	**992**	**997**	**1.056**	**1.127**	**1.036**
	2,7%	*4,2%*	*14,7%*	*-17,2%*	*3,3%*	*-21,4%*	*0,5%*	*5,9%*	*6,7%*	*-8,1%*
Total	**7.343**	**7.385**	**7.998**	**7.586**	**7.676**	**7.143**	**7.175**	**8.052**	**8.268**	**8.082**

Source: Authors own compilation based on data from Eurominot Passport and the Campbell Soup Company Annual reports

The below key ratios have been applied in order to estimate a firm's profitability (Petersen & Plenborg, pp. 94-121).

$$\textbf{Return on Equity}, \textbf{ROE} = ROIC + (FGEAR * Spread)$$

$$\textbf{Return on Invested Capital}, \textbf{ROIC} = \frac{EBIT}{Invested\ Capital}$$

$$\textbf{FGEAR} = \frac{NIBD}{Equity}$$

$$\textbf{Spread} = ROIC - NBC$$

$$\textbf{Net Borrowing Cost}, \textbf{NBC} = \frac{Net\ Financial\ Expenses}{NIBD}$$

$$\textbf{Profit Margin}, \textbf{PM} = \frac{EBIT}{Operating\ Revenues}$$

$$\textbf{Asset Turnover}, \textbf{ATO} = \frac{Operating\ Revenues}{Invested\ Capital}$$

Together, these ratios and key financial metrics make the DuPont Pyramid:

Overview of the DuPont Pyramid (before tax)
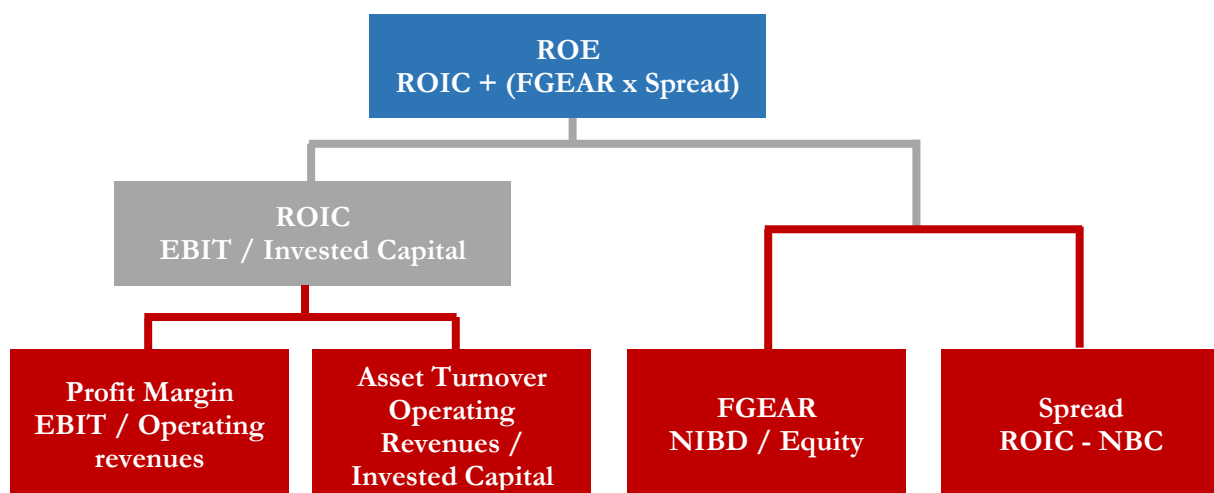
Source: Authors own compilation based on (Petersen & Plenborg, 2012, p. 94)

A.11. Campbell Soup Company – Profitability Analysis

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	H1 2016
PM (pre-tax)	16.0%	16.5%	15.7%	16.0%	15.7%	16.8%	13.7%	15.6%	17.6%	17.0%	16.1%	13.4%	14.4%	13.5%	16.6%
ATO	1.6x	1.8x	1.7x	1.6x	1.6x	1.6x	1.9x	1.7x	1.8x	1.7x	1.6x	1.8x	1.4x	1.4x	0.8x
ROIC	26.4%	29.1%	26.8%	24.8%	24.3%	26.7%	26.1%	27.2%	31.2%	28.1%	25.7%	24.4%	19.7%	18.4%	12.5%
ROIC	26.4%	29.1%	26.8%	24.8%	24.3%	26.7%	26.1%	27.2%	31.2%	28.1%	25.7%	24.4%	19.7%	18.4%	12.5%
FGEAR	-34.3x	9.7x	4.2x	2.7x	1.6x	2.3x	2.3x	4.9x	3.6x	3.1x	3.9x	4.0x	2.7x	3.2x	2.3x
NBC	4.7%	4.6%	4.5%	4.9%	4.3%	5.0%	5.4%	3.5%	3.0%	3.3%	3.1%	3.5%	2.5%	2.4%	1.2%
SPR	21.7%	24.5%	22.4%	20.0%	20.0%	21.7%	20.6%	23.7%	28.3%	24.8%	22.6%	20.9%	17.2%	16.0%	11.3%
ROE	-717.3%	267.8%	121.0%	79.2%	56.9%	75.7%	73.6%	143.6%	134.0%	105.1%	114.3%	108.0%	66.4%	69.9%	38.8%
ROE	-717.3%	267.8%	121.0%	79.2%	56.9%	75.7%	73.6%	143.6%	134.0%	105.1%	114.3%	108.0%	66.4%	69.9%	38.8%

The Campbell Soup Company
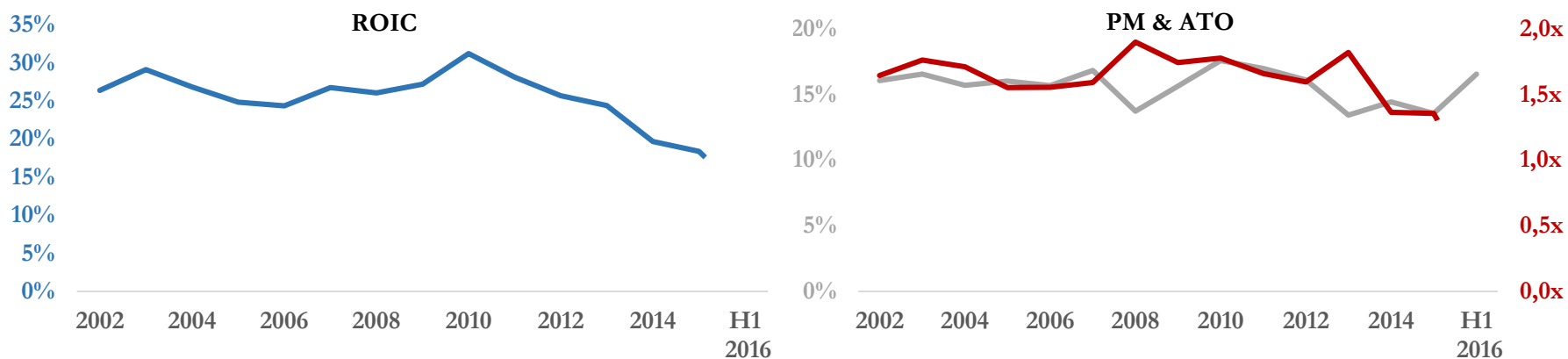
Source: Authors own compilation

A.12. Campbell Soup Company – Liquidity Risk Analysis

Liquidity Risk	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	H1 2016
Liquidity cycle	27.21	28.47	37.43	40.50	32.16	33.97	36.28	43.64	42.87	45.14	42.59	49.80	61.68	63.64	59.07
Current ratio	0.44	0.45	0.62	0.72	0.51	0.74	0.67	0.92	0.69	0.74	0.68	0.57	0.62	0.64	0.71
Quick ratio	0.20	0.20	0.28	0.34	0.25	0.36	0.33	0.41	0.34	0.36	0.33	0.29	0.28	0.29	0.38
Solvency ratio															
Based on book values	-0.02	0.06	0.13	0.19	0.23	0.20	0.20	0.12	0.15	0.16	0.14	0.15	0.20	0.17	0.19
Based on market values	0.53	0.55	0.58	0.63	0.67	0.69	0.68	0.63	0.67	0.61	0.64	0.65	0.67	0.69	0.73
Financial Leverage															
Based on book values	-51.18	15.03	6.62	4.34	3.38	3.98	3.91	7.28	5.76	5.26	6.27	5.88	4.06	4.88	4.30
Based on market values	0.89	0.83	0.73	0.60	0.50	0.45	0.46	0.58	0.49	0.63	0.55	0.54	0.48	0.45	0.37

Source: Authors own compilation based on (Petersen & Plenborg, s. 150 - 166)

Credit rating*	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	H1 2016
EBITDA Coverage Ratio	6.9x	7.2x	7.9x	7.7x	8.7x	9.4x	8.3x	13.2x	14.3x	12.1x	12.4x	11.0x	12.3x	12.9x	15.5x
EBIT Coverage Ratio	5.2x	5.9x	6.4x	6.2x	7.0x	7.6x	6.6x	10.8x	12.0x	9.9x	10.1x	8.0x	9.8x	10.1x	12.8x
Funds from Operation / total debt	0.14	0.14	0.16	0.18	0.17	0.22	0.28	0.19	0.21	0.18	0.18	0.12	0.17	0.15	
Free operating cash flow / total liabilities	0.17	0.17	0.18	0.19	0.23	0.24	0.22	0.20	0.23	0.21	0.20	0.17	0.18	0.17	
ROIC (%)	26.4	29.1	26.8	24.8	24.3	26.7	26.1	27.2	31.2	28.1	25.7	24.4	19.7	18.4	
Gross Margin (%)	50.3	49.1	46.7	44.8	44.9	45.7	44.5	43.3	43.4	44.3	44.2	42.8	41.2	38.7	38.5
Long-term debt/capital	0.28	0.32	0.30	0.30	0.28	0.21	0.21	0.20	0.29	0.23	0.29	0.26	0.22	0.21	0.21
Total Liabilities / Total Capital [market value of equity used]	0.47	0.45	0.42	0.37	0.29	0.29	0.31	0.36	0.32	0.36	0.34	0.34	0.32	0.30	0.26
EBITDA Coverage Ratio	A	A	A	A	A	A	A	AA	AA	AA	AA	AA	AA	AA	AA
EBIT Coverage Ratio	BB	BBB	BBB	BBB	BBB	BBB	BBB	A	A	A	A	BBB	A	A	A
Funds from Operation / total debt	B	B	B	B	B	BB	BB	BB	BB	B	B	B	B	B	
Free operating cash flow / total liabilities	A	A	A	A	A	A	A	A	A	A	A	A	A	A	
ROIC	AA	AA	AA	AA	AA	AA	AA	AA	AA	AA	AA	AA	A	BBB	
Gross Margin	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA
Long-term debt/capital	AA	A	A	A	AA	AA	AA	AA	A	AA	A	AA	AA	AA	AA
Total Liabilities / Total Capital [market value of equity used]	BBB	BBB	A	AA	AA	AA	AA	AA	AA	AA	AA	AA	AA	AA	AA
Average Rating	**BBB**	**BBB**	**BBB**	**A**	**A**	**A**	**A**	**A**	**A**	**A**	**A**	**A**	**A**	**A**	**AA**

Source: Authors own compilation based on (Petersen & Plenborg, s. 277 – 291)

All amounts in USD millions

Analytical Income Statment	2010	2011	2012	2013	2014	2015
Net sales	**12.397**	**13.198**	**14.197**	**14.792**	**14.580**	**13.525**
COGS	7.055	8.046	8.763	8.689	9.517	8.844
Gross profit	**5.342**	**5.152**	**5.434**	**6.103**	**5.063**	**4.681**
Selling, general and adm. Expense (excl. D&A)	2.933	3.356	3.424	2.734	3.536	3.056
EBITDA	**2.409**	**1.796**	**2.010**	**3.369**	**1.527**	**1.625**
Depreciation & Amortization	*372*	*369*	*448*	*532*	*503*	**534**
EBIT	**2.037**	**1.427**	**1.562**	**2.837**	**1.024**	**1.091**
Tax on Operating Activities	585	387	449	864	252	200
NOPAT	**1.452**	**1.040**	**1.114**	**1.973**	**772**	**891**
Interest expense	248	233	261	235	209	227
Other income (Expense), net	1	- 10	24	4	10	- 91
Net Financial Expenses before Tax	**247**	**243**	**237**	**231**	**199**	**318**
Tax Shield	75	67	86	72	66	41
Net income (before profit/loss from JV)	**1.280**	**864**	**962**	**1.814**	**639**	**614**
Earnings (loss) from joint ventures	-	-	- 1	- 6	- 6	-
Net income	**1.280**	**864**	**961**	**1.808**	**633**	**614**
Net loss attributable to non-controlling interest	- 7	- 2	-	1	1	-
Net income attributable to Kellogg Company	**1.287**	**866**	**961**	**1.807**	**632**	**614**
Calculation of Taxes	2010	2011	2012	2013	2014	2015
Effective Tax Rate	0	0	0	0	0	0
Reported Tax Pay	510	320	363	792	186	159
Tax on Non-Operating Activities	75	67	86	72	66	41
Tax on Operating Activities	**585**	**387**	**449**	**864**	**252**	**200**

All amounts in USD millions

Consolidated Balance Sheet	2010	2011	2012	2013	2014	2015
Cash and cash equivalents	444	460	281	273	443	251
Accounts receivable, net	1.190	1.188	1.454	1.424	1.276	1.344
Inventories	1.056	1.174	1.365	1.248	1.279	1.250
Other current assets	225	247	280	322	342	391
Total current assets	**2.915**	**3.069**	**3.380**	**3.267**	**3.340**	**3.236**
Property, net	3.128	3.281	3.782	3.856	3.769	3.621
Goodwill	3.628	3.623	5.053	5.051	4.971	4.968
Other intangibles, net	1.456	1.454	2.359	2.367	2.295	2.268
Investments in unsolicited entities					1	456
Other assets	720	516	610	933	777	716
Total non-current assets	**8.932**	**8.874**	**11.804**	**12.207**	**11.813**	**12.029**
Total assets	11.847	11.943	15.184	15.474	15.153	15.265
Current maturities on long-term debt	952	761	755	289	607	1.266
Notes payable	44	234	1.065	739	828	1.204
Accounts payable	1.149	1.189	1.402	1.432	1.528	1.907
Other current liabilities	1.039	1.129	1.301	1.375	1.401	1.362
Total current liabilities	**3.184**	**3.313**	**4.523**	**3.835**	**4.364**	**5.739**
Long term debt	4.908	5.037	6.082	6.330	5.935	5.289
Deferred income taxes	697	643	523	928	726	685
Pension Liability	265	560	886	277	777	946
Other liabilities	639	592	690	497	500	468
Total non-current liabilities	**6.509**	**6.832**	**8.181**	**8.032**	**7.938**	**7.388**
Total liabilities	**9.693**	**10.145**	**12.704**	**11.867**	**12.302**	**13.127**
Total Kellogg Company equity	**2.158**	**1.796**	**2.419**	**3.545**	**2.789**	**2.128**
Non-controlling interests	-	4	2	61	62	10
Total equity	**2.154**	**1.798**	**2.480**	**3.607**	**2.851**	**2.138**
Total liabilities and equity	11.847	11.943	15.184	15.474	15.153	15.265

All amounts in USD millions

Analytical Balance Sheet	2010	2011	2012	2013	2014	2015
Intangible & Tangible Assets	**8932**	**8874**	**11804**	**12207**	**11813**	**12029**
Goodwill	3.628	3.623	5.053	5.051	4.971	4.968
Other intangibles, net	1.456	1.454	2.359	2.367	2.295	2.268
Property, net	3.128	3.281	3.782	3.856	3.769	3.621
Investments in unsolicited entities	-	-	-	-	1	456
Other assets	720	516	610	933	777	716
Total Non-Current Assets	**8.932**	**8.874**	**11.804**	**12.207**	**11.813**	**12.029**
Inventories	1.056	1.174	1.365	1.248	1.279	1.250
Accounts receivable, net	1.190	1.188	1.454	1.424	1.276	1.344
Other current assets	225	247	280	322	342	391
Total Current Assets	**2.471**	**2.609**	**3.099**	**2.994**	**2.897**	**2.985**
Accounts payable	1.149	1.189	1.402	1.432	1.528	1.907
Other current liabilities	1.039	1.129	1.301	1.375	1.401	1.362
Deferred income taxes	697	643	523	928	726	685
Other liabilities	639	592	690	497	500	468
Total non-interest bearing debt	**3.524**	**3.553**	**3.916**	**4.232**	**4.155**	**4.422**
Net Working Capital	**- 1.053**	**- 944**	**- 817**	**- 1.238**	**- 1.258**	**- 1.437**
Invested Capital, Net Operating Assets	**7.879**	**7.930**	**10.987**	**10.969**	**10.555**	**10.592**
Total Equity	**2.154**	**1.798**	**2.480**	**3.607**	**2.851**	**2.138**
Current maturities on long-term debt	952	761	755	289	607	1.266
Notes payable	44	234	1.065	739	828	1.204
Long term debt	4.908	5.037	6.082	6.330	5.935	5.289
Pension Liability	265	560	886	277	777	946
Total interest bearing debt	**6.169**	**6.592**	**8.788**	**7.635**	**8.147**	**8.705**
Cash and cash equivalents	444	460	281	273	443	251
Total interest bearing assets	**444**	**460**	**281**	**273**	**443**	**251**
Net interest bearing debt	**5.725**	**6.132**	**8.507**	**7.362**	**7.704**	**8.454**
Invested Capital, Net Operating Liabilities	**7.879**	**7.930**	**10.987**	**10.969**	**10.555**	**10.592**

Appendices

All amounts in USD millions

Analytical Income Statement	2010	2011	2012	2013	2014	2015	Q2 2016
Net sales	**14636**	**14880**	**16658**	**17774**	**17910**	**17630**	**8633**
COGS (excl. D&A)	8378	8454	10072	10762	10954	11093	5245
Gross profit	**6257**	**6426**	**6586**	**7012**	**6955**	**6538**	**3388**
Selling, general and adm. Expense (excl. D&A)	3163	3192	3381	3552	3474	3328	1584
Divestiture		-17			-66		-199
Restructuring, impairment and other costs	31	4	102	20	4	544	121
EBITDA	**3063**	**3247**	**3104**	**3440**	**3543**	**2666**	**1882**
Depreciation & Amortization	457	473	542	588	585	588	293
EBIT	**2606**	**2775**	**2562**	**2852**	**2957**	**2077**	**1589**
Tax on Operating Activities	892	825	815	836	974	681	555
NOPAT	**1714**	**1950**	**1747**	**2016**	**1983**	**1396**	**1034**
Net Financial Expenses before Tax	**402**	**346**	**352**	**317**	**302**	**315**	**149**
Tax Shield	120	104	106	95	91	95	45
Net income (before profit/loss from JV)	**1433**	**1707**	**1501**	**1794**	**1772**	**1175**	**930**
Earnings (loss) from joint ventures	102	96	88	99	90	84	49
Net income attributable to General Mills and Subs.	**1535**	**1804**	**1589**	**1893**	**1861**	**1259**	**979**
Net loss attributable to non-controlling interest	5	5	22	37	37	38	23
Net income - General Mills	**1531**	**1798**	**1567**	**1855**	**1824**	**1221**	**956**

Calculation of Taxes	2010	2011	2012	2013	2014	2015	Q2 2016
Effective Tax Rate	0	0	0	0	0	0	0
Reported Tax Pay	771	721	710	741	883	587	510
Tax on Non-Operating Activities	120	104	106	95	91	95	45
Tax on Operating Activities	**892**	**825**	**815**	**836**	**974**	**681**	**555**

All amounts in USD millions

Consolidated Balance Sheet	2010	2011	2012	2013	2014	2015	Q2 2016
Cash and cash equivalents	673	620	471	741	867	334	650
Receivables	1042	1162	1324	1446	1484	1387	1461
Inventories	1344	1609	1479	1546	1559	1541	1455
Prepaid expenses and other current assets	43	484	358	128	74	100	99
Deferred income taxes	379	27	60	438	409	424	383
Total current assets	**3480**	**3902**	**3691**	**4299**	**4394**	**3786**	**4048**
Land, buildings, and equipment	3128	3346	3653	3878	3942	3783	3588
Goodwill	6593	6751	8183	8622	8651	8875	8602
Other intangibles assets	3715	3813	4705	5015	5014	4677	4471
Other assets	763	863	865	844	1146	811	880
Total non-current assets	**14199**	**14773**	**17405**	**18359**	**18752**	**18146**	**17541**
Total assets	**17679**	**18675**	**21097**	**22658**	**23146**	**21932**	**21589**
Current portions of long-term debt	850	1031	741	1443	1251	1000	1100
Notes payable	107	311	527	600	1112	616	307
Accounts payable	1050	995	1149	1423	1611	1684	1704
Other current liabilities	1762	1322	1427	1828	1450	1590	1858
Total current liabilities	**3769**	**3659**	**3843**	**5294**	**5424**	**4890**	**4969**
Long term debt	5269	5543	6162	5926	6424	7575	7417
Deferred income taxes	875	1127	1171	1389	1666	1550	1508
Other liabilities	2119	1733	2190	1953	1643	1745	1712
Total non-current liabilities	**8262**	**8403**	**9523**	**9268**	**9733**	**10870**	**10637**
Total liabilities	**12031**	**12062**	**13366**	**14562**	**15156**	**15761**	**15606**
Redeemable interest			848	968	984	779	817
Total Stockholders' equity	**5403**	**6366**	**6422**	**6672**	**6535**	**4997**	**4797**
Non-controlling interests	245	247	461	456	471	396	368
Total equity	**5648**	**6612**	**6883**	**7128**	**7005**	**5393**	**5165**
Total liabilities and equity	**17679**	**18675**	**21097**	**22658**	**23146**	**21932**	**21589**

All amounts in USD millions

Analytical Balance Sheet	2010	2011	2012	2013	2014	2015	Q2 2016
Intangible & Tangible Assets	**14199**	**14773**	**17405**	**18359**	**18752**	**18146**	**17541**
Goodwill	6593	6751	8183	8622	8651	8875	8602
Other intangibles, net	3715	3813	4705	5015	5014	4677	4471
Land, buildings, and equipment	3128	3346	3653	3878	3942	3783	3588
Other assets	763	863	865	844	1146	811	880
Total Non-Current Assets	**14199**	**14773**	**17405**	**18359**	**18752**	**18146**	**17541**
Inventories	1344	1609	1479	1546	1559	1541	1455
Receivables	1042	1162	1324	1446	1484	1387	1461
Prepaid expenses and other current assets	43	484	358	128	74	100	99
Deferred income taxes	379	27	60	438	409	424	383
Total Current Assets	**2807**	**3282**	**3220**	**3558**	**3526**	**3452**	**3398**
Accounts payable	1050	995	1149	1423	1611	1684	1704
Other current liabilities	1762	1322	1427	1828	1450	1590	1858
Deferred income taxes	875	1127	1171	1389	1666	1550	1508
Other liabilities	2119	1733	2190	1953	1643	1745	1712
Total non-interest bearing debt	**5806**	**5177**	**5937**	**6593**	**6370**	**6569**	**6783**
Net Working Capital	**-2999**	**-1895**	**-2717**	**-3035**	**-2844**	**-3118**	**-3385**
Invested Capital, Net Operating Assets	11200	12878	14689	15324	15908	15029	14156
Total Equity	**5648**	**6612**	**6883**	**7128**	**7005**	**5393**	**5165**
Current maturities on long-term debt	850	1031	741	1443	1251	1000	1100
Notes payable	107	311	527	600	1112	616	307
Long term debt	5269	5543	6162	5926	6424	7575	7417
Redeemable interest	0	0	848	968	984	779	817
Total interest bearing debt	**6225**	**6885**	**8277**	**8937**	**9770**	**9970**	**9641**
Cash and cash equivalents	673	620	471	741	867	334	650
Total interest bearing assets	**673**	**620**	**471**	**741**	**867**	**334**	**650**
Net interest bearing debt	**5552**	**6266**	**7806**	**8195**	**8903**	**9636**	**8991**

Invested Capital, Net Operating Liabilities	11200	12878	14689	15324	15908	15029	14156

All amounts in USD millions

Analytical Income Statment	2010	2011	2012	2013	2014	2015	H1 2016
Net sales	12015	12303	13263	13469	15844	15832	5887
COGS (excl. D&A)	8642	9029	10064	9686	11754	11932	4169
Gross profit	**3373**	**3274**	**3199**	**3784**	**4089**	**3901**	**1718**
Selling, general and adm. Expenses	1988	1510	1998	2066	2771	3472	930
EBITDA	**1385**	**1765**	**1201**	**1718**	**1318**	**429**	**788**
Depreciation & Amortization	324	361	372	419	577	592	189
EBIT	**1061**	**1404**	**829**	**1299**	**741**	**-164**	**599**
Tax on Operating Activities	340	475	257	445	334	334	216
NOPAT	**720**	**929**	**572**	**854**	**407**	**-497**	**383**
Interest expenses, net	160	178	204	276	379	332	160
Tax Shield	48	53	61	83	114	100	48
Net income before adjustments	**608**	**804**	**429**	**661**	**141**	**-730**	**271**
Equity method investment earnings	22	26	45	38	33	122	62
Income from discontinued operations, net of tax	-19	-12	0	88	141	367	-1326
Net income (loss)	**611**	**819**	**474**	**786**	**315**	**-241**	**-993**
Net income attributed to non-controlling interests	-3	2	7	12	12	12	6
Net income attributed to ConAgra Foods, Inc.	**614**	**818**	**468**	**774**	**303**	**-253**	**-999**

Calculation of Taxes	2010	2011	2012	2013	2014	2015	H1 2016
Effective Tax Rate	30%	30%	30%	30%	30%	30%	30%
Reported Tax Pay	292,3	421,6	195,8	361,9	220,1	234	168,1
Tax on Non-Operating Activities	48,12	53,25	61,2	82,86	113,82	99,57	47,97
Tax on Operating Activities	**340,42**	**474,85**	**257**	**444,76**	**333,92**	**333,57**	**216,07**

All amounts in USD millions

Consolidated Balance Sheet	2010	2011	2012	2013	2014	2015	H1 2016
Cash and cash equivalents	953	972	103	184	141	183	96
Receivables	850	849	925	1279	1058	973	894
Inventories	1598	1803	1870	2341	2077	2201	1976
Prepaid expenses and other current assets	307	274	321	511	322	311	169
Current assets held for sale	252			65	632		778
Total current assets	**3960**	**3899**	**3219**	**4380**	**4231**	**3668**	**3913**
Land and land improvements	169	201	202	254	218	191	
Building, machinery and equipment	4093	4440	4729	5601	5626	6032	6207
Furniture, fixtures, office equipment and other	843	872	905	901	902	898	
Construction in progress	248	185	159	332	362	318	
Less accumulated depreciation	-2750	-3028	-3254	-3329	-3473	-3830	-3562
Goodwill	3550	3609	4015	8427	7829	6300	4686
Brands, trademarks and other intangibles, net	875	936	1192	3404	3205	3030	1384
Other assets	696	294	274	294	220	936	988
Non-current assets held for sale	55			144	199		2379
Total non-current assets	**7778**	**7509**	**8223**	**16026**	**15089**	**13875**	**12082**
Total assets	**11738**	**11409**	**11442**	**20405**	**19320**	**17542**	**15995**

Notes payable	1		40	185	142	8	195
Current installments of long-term debt	260	364	38	518	84	1008	1310
Accounts payable	919	1084	1190	1498	1349	1358	1196
Accrued payroll	264	124	177	287	154	218	212
Other accrued liabilities	579	554	780	909	748	718	727
Current liabilities held for sale	13			5	165		314
Total current liabilities	**2036**	**2126**	**2225**	**3401**	**2642**	**3310**	**3954**
Senior long-term debt, excluding current installments	3031	2674	2663	8691	8525	6693	6205
Subordinated debt	196	196	196	196	196	196	196
Other non-current liabilities	1541	1736	1822	2754	2599	2733	1891
Non-current liabilities held for sale	5			0	2		235
Total non-current liabilities	**4773**	**4606**	**4681**	**11641**	**11322**	**9622**	**8526**
Total liabilities	**6809**	**6732**	**6906**	**15042**	**13964**	**12932**	**12480**
Total ConAgra Foods common stockholder's equity	**4924**	**4670**	**4440**	**5264**	**5259**	**4526**	**3434**
Non-controlling interest	5	7	97	99	97	84	81
Total common stockholders' equity	**4929**	**4677**	**4536**	**5363**	**5355**	**4610**	**3515**
Total liabilities and equity	**11738**	**11409**	**11442**	**20405**	**19320**	**17542**	**15995**

All amounts in USD millions

Analytical Balance Sheet	2010	2011	2012	2013	2014	2015	H1 2016
Intangible & tangible assets	**7778**	**7509**	**8223**	**16026**	**15089**	**13875**	**12082**
Land and land improvements	169	201	202	254	218	191	0
Building, machinery and equipment	4093	4440	4729	5601	5626	6032	6207
Furniture, fixtures, office equipment and other	843	872	905	901	902	898	0
Construction in progress	248	185	159	332	362	318	0
Less accumulated depreciation	-2750	-3028	-3254	-3329	-3473	-3830	-3562
Goodwill	3550	3609	4015	8427	7829	6300	4686
Brands, trademarks and other intangibles, net	875	936	1192	3404	3205	3030	1384
Other assets	696	294	274	294	220	936	988
Non-current assets held for sale	55	0	0	144	199	0	2379
Total non-current assets	**7778**	**7509**	**8223**	**16026**	**15089**	**13875**	**12082**
Receivables	850	849	925	1279	1058	973	894
Inventories	1598	1803	1870	2341	2077	2201	1976
Prepaid expenses and other current assets	307	274	321	511	322	311	169
Current assets held for sale	252	0	0	65	632	0	778
Total current assets	**3007**	**2927**	**3116**	**4196**	**4090**	**3485**	**3817**
Accounts payable	919	1084	1190	1498	1349	1358	1196
Accrued payroll	264	124	177	287	154	218	212
Other accrued liabilities	579	554	780	909	748	718	727
Current liabilities held for sale	13	0	0	5	165	0	314
Other non-current liabilities	1541	1736	1822	2754	2599	2733	1891
Non-current liabilities held for sale	5	0	0	0	2	0	235
Total non-interest bearing debt	**3322**	**3498**	**3969**	**5453**	**5018**	**5027**	**4575**
Networking capital	**-315**	**-571**	**-853**	**-1257**	**-928**	**-1543**	**-758**
Invested Capital, Net Operating Assets	**7463**	**6938**	**7370**	**14769**	**14160**	**12332**	**11324**

Total equity	**4929**	**4677**	**4536**	**5363**	**5355**	**4610**	**3515**
Notes payable	1	0	40	185	142	8	195
Current installments of long-term debt	260	364	38	518	84	1008	1310
Senior long-term debt, excluding current installments	3031	2674	2663	8691	8525	6693	6205
Subordinated debt	196	196	196	196	196	196	196
Total interest bearing debt	**3487**	**3234**	**2937**	**9590**	**8946**	**7905**	**7905**
Cash and cash equivalents	953	972	103	184	141	183	96
Total interest bearing assets	**953**	**972**	**103**	**184**	**141**	**183**	**96**
Net interest bearing debt	**2534**	**2261**	**2834**	**9406**	**8805**	**7722**	**7809**
Invested Capital, Net Operating Liabilities	**7463**	**6938**	**7370**	**14769**	**14160**	**12332**	**11324**

Appendices

All amounts in USD millions

Analytical Income Statement	2010	2011	2012	2013	2014	2015	1-3Q 2016
Net sales	**4605**	**4826**	**5526**	**5898**	**5611**	**5693**	**6004**
COGS (excl. D&A)	2703	2807	3479	3705	3413	3560	3549
COGS - restructuring and merger and integration	4	54	43	12	9	6	9
Gross Profit	**1899**	**1964**	**2004**	**2182**	**2189**	**2126**	**2445**
Selling, distribution, and adm. Expenses	878	863	893	974	989	1031	1159
Impairment charges	12	18	5	0	0		
Other restructuring and merger integration costs	2	48	73	43	26	57	
Other special project costs	34	11	0	7	0		95
Loss of divestiture	-14	0	11	0	0		
Other operating income - net	10	1	-2	-3	-1	-2	-31
EBTIDA	**977**	**1024**	**1025**	**1161**	**1175**	**1040**	**1223**
Amortization	74	74	88	97	99	111	158
Depreciation	112	166	159	154	158	158	166
Other debt costs						173	
EBIT	**791**	**784**	**778**	**910**	**919**	**599**	**899**
Tax on Operating Activities	255	258	265	301	305	201	309
NOPAT	**536**	**526**	**514**	**609**	**614**	**398**	**590**
Interest expense - net	62	67	80	93	79	80	131
Other income - net	2	0	3	0	10	4	-1
Net financial expenses	**60**	**67**	**77**	**93**	**69**	**76**	**132**
Tax Shield	18	20	23	28	21	23	39
Net Income	**494**	**480**	**460**	**544**	**565**	**345**	**498**

Calculation of Taxes	2010	2011	2012	2013	2014	2015	1-3Q 2016
Effective Tax Rate	0	0	0	0	0	0	0

Appendices

	237	238	242	273	285	178	270
Reported Tax Pay	237	238	242	273	285	178	270
Tax on Non-Operating Activities	18	20	23	28	21	23	39
Tax on Operating Activities	**255**	**258**	**265**	**301**	**305**		

All amounts in USD millions

Consolidated Balance Sheet	2010	2011	2012	2013	2014	2015	1-3Q 2016
Cash and cash equivalents	**320**	**320**	**230**	**256**	**154**	**126**	**141**
Trade receivables, less allowance for doubtful accounts	344	344	348	314	309	430	504
Inventories:							942
Finished products	518	518	644	619	572	815	
Raw material	345	345	318	327	360	349	
Other current assets	109	109	105	80	145	333	212
Total Current Assets	**1637**	**1637**	**1644**	**1595**	**1539**	**2052**	**1798**
Land and land improvements	77	77	90	99	100	114	
Buildings and fixtures	348	348	460	494	516	666	
Machinery and equipment	1023	1023	1160	1268	1384	1784	
Construction in progress	77	77	143	125	164	135	
Accumulated depreciation	-657	-657	-757	-843	-898	-1021	
Property, plant and equipment - Net							1624
Total Property, plant and equipment	**868**	**868**	**1096**	**1143**	**1266**	**1678**	**1624**
Goodwill	2813	2813	3055	3053	3098	6010	5945
Other intangible assets - net	2940	2940	3187	3089	3024	6950	6715
Other non-current assets	67	67	134	152	133	192	199
Total Other Current Assets	**5820**	**5820**	**6376**	**6294**	**6256**	**13152**	**12859**
Total Assets	8325	8325	9115	9032	9060	16883	16282

160

Accounts payable	235	235	275	286	289	403	371
Accrued compensation	62	62	83	70	57	100	
Accrued trade marketing and merchandising	63	63	62	57	59	105	
Dividends payable	8	50	53	55	59	77	
Current portion of long-term debt	50			50	50	100	0	
Revolving credit facility					243	226	138
Other current liabilities	65	73	94	79	79	112	497
Total Current Liabilities	**483**	**483**	**617**	**597**	**886**	**1023**	**1006**
Long-term debt	1304	1304	2021	1968	1873	5945	5146
Defined benefit pensions	99	99	148	163	136	189	
Other postretirement benefits	60	60	69	67	59	75	
Deferred income taxes	1043	1043	993	987	1021	2473	
Other non-current liabilities	44	44	105	101	57	91	2804
Total Non-Current Liabilities	**2550**	**2550**	**3335**	**3286**	**3145**	**8773**	**7950**
Total Liabilities	**3032**	**3032**	**3952**	**3883**	**4031**	**9796**	**8956**
Total Shareholders' Equity	**5292**	**5292**	**5163**	**5149**	**5030**	**7087**	**7326**
Total Liabilities and Shareholders' Equity	**8325**	**8325**	**9115**	**9032**	**9060**	**16883**	**16282**

All amounts in USD millions

Analytical Balance Sheet	2010	2011	2012	2013	2014	2015	1-3Q 2016
Intangible & tangible assets	**6688**	**6688**	**7472**	**7437**	**7521**	**14830**	**14483**
Land and land improvements	77	77	90	99	100	114	0
Buildings and fixtures	348	348	460	494	516	666	0
Machinery and equipment	1023	1023	1160	1268	1384	1784	0
Construction in progress	77	77	143	125	164	135	0
Accumulated depreciation	-657	-657	-757	-843	-898	-1021	0
Property, plant and equipment - Net	0	0	0	0	0	0	1624
Goodwill	2813	2813	3055	3053	3098	6010	5945
Other intangible assets - net	2940	2940	3187	3089	3024	6950	6715
Other non-current assets	67	67	134	152	133	192	199
Total Non-Current Assets	**6688**	**6688**	**7472**	**7437**	**7521**	**14830**	**14483**
Trade receivables, less allowance for doubtful accounts	344	344	348	314	309	430	504
Inventories:	0	0	0	0	0	0	942
Finished products	518	518	644	619	572	815	0
Raw material	345	345	318	327	360	349	0
Other current assets	109	109	105	80	145	333	212
Total Current Assets	**1317**	**1317**	**1414**	**1339**	**1386**	**1927**	**1658**
Accounts payable	235	235	275	286	289	403	371
Accrued compensation	62	62	83	70	57	100	0
Accrued trade marketing and merchandising	63	63	62	57	59	105	0
Dividends payable	8	50	53	55	59	77	0
Other current liabilities	65	73	94	79	79	112	497
Deferred income taxes	1043	1043	993	987	1021	2473	0
Other non-current liabilities	44	44	105	101	57	91	2804

Appendices

Total Non-interest bearing debt	1519	1570	1665	1635	1620	3361	3672
Net Working Capital	-202	-253	-251	-296	-235	-1435	-2014
Invested Capital, Net operating assets	**6486**	**6435**	**7221**	**7140**	**7287**	**13396**	**12469**
Total Shareholders' Equity	5292	5292	5163	5149	5030	7087	7326
Total Interest Bearing Debt							
Current portion of long-term debt	50		50	50	100	0	0
Revolving credit facility					243	226	138
Long-term debt	1304	1304	2021	1968	1873	5945	5146
Defined benefit pensions	99	99	148	163	136	189	0
Other postretirement benefits	60	60	69	67	59	75	0
Total Interest Bearing Debt	1513	1463	2287	2248	2411	6434	5284
Interest Bearing Assets							
Cash and cash equivalents	320	320	230	256	154	126	141
Total Interest Bearing Assets	320	320	230	256	154	126	141
Net Interest Bearing Debt	1193	1143	2057	1992	2257	6309	5144
Invested Capital, Net operating liabilities	**6485**	**6435**	**7221**	**7140**	**7287**	**13396**	**12469**

A.15. Peer Group – Profitability analysis

DuPont Pyramid calculation for Peers

Kellogg's	2010	2011	2012	2013	2014	2015	
PM (pre-tax)		10.8%	11.0%	19.2%	7.0%	8.1%	
ATO		1.7x	1.8x	1.3x	1.3x	1.3x	
ROIC		18.1%	19.7%	25.8%	9.3%	10.3%	
ROIC		18.1%	19.7%	25.8%	9.3%	10.3%	
FGEAR (D/E)		3,4x	3.4x	2.0x	2.7x	4.0x	
NBC		4.2%	3.9%	2.7%	2.7%	4.1%	
SPR		13.9%	15.8%	23.1%	6.6%	6.2%	
ROE		65.4%	74.0%	73.0%	27.3%	34.9%	
ROE		65.4%	74.0%	73.0%	27.3%	34.9%	

General Mill's	2010	2011	2012	2013	2014	2015	Q2.2016
PM (pre-tax)		18.6%	15.4%	16.0%	16.5%	11.8%	18.4%
ATO		1.3x	1.3x	1.2x	1.2x	1.1x	0.6x
ROIC		24.8%	19.9%	19.4%	19.3%	13.1%	10.6%
ROIC		24.8%	19.9%	19.4%	19.3%	13.1%	10.6%
FGEAR		0.9x	1.1x	1.1x	1.3x	1.8x	1.7x
NBC		6.2%	5.6%	4.1%	3.7%	3.5%	1.5%
SPR		18.5%	14.3%	15.4%	15.6%	9.5%	9.0%
ROE		42.3%	36.1%	37.1%	39.1%	30.1%	26.3%
ROE		42.3%	36.1%	37.1%	39.1%	30.1%	26.3%

ConAgra Foods	2010	2011	2012	2013	2014	2015	H1.2016
PM (pre-tax)		11.4%	6.3%	9.6%	4.7%	-1.0%	10.2%
ATO		1.6x	1.9x	1.8x	1.1x	1.1x	0.5x
ROIC		18.8%	12.0%	17.6%	5.0%	-1.2%	4.9%
ROIC		18.8%	12.0%	17.6%	5.0%	-1.2%	4.9%
FGEAR		0.5x	0.6x	1.8x	1.6x	1.7x	2.2x
NBC		7.0%	9.0%	9.7%	4.0%	3.8%	2.1%
SPR		11.8%	2.9%	7.9%	1.0%	-4.9%	2.8%
ROE		24.5%	13.8%	31.4%	6.6%	-9.4%	11.0%
ROE		24.5%	13.8%	31.4%	6.6%	-9.4%	11.0%

The J.M. Smucker Co.	2010	2011	2012	2013	2014	2015	1Q-3Q.2016
PM (pre-tax)		16.3%	14.1%	15.4%	16.4%	10.5%	15.0%
ATO		0.7x	0.9x	0.8x	0.8x	0.8x	0.4x
ROIC		12.1%	12.1%	12.6%	12.9%	8.2%	6.7%
ROIC		12.1%	12.1%	12.6%	12.9%	8.2%	6.7%
FGEAR		0.2x	0.4x	0.4x	0.4x	0.9x	0.7x
NBC		5.6%	6.7%	4.5%	3.5%	3.4%	2.1%
SPR		6.5%	5.3%	8.1%	9.4%	4.9%	4.6%
ROE		13.5%	14.2%	15.7%	17.1%	12.5%	10.0%
ROE		13.5%	14.2%	15.7%	17.1%	12.5%	10.0%

Appendices

Kellogg's

ROIC

PM & ATO
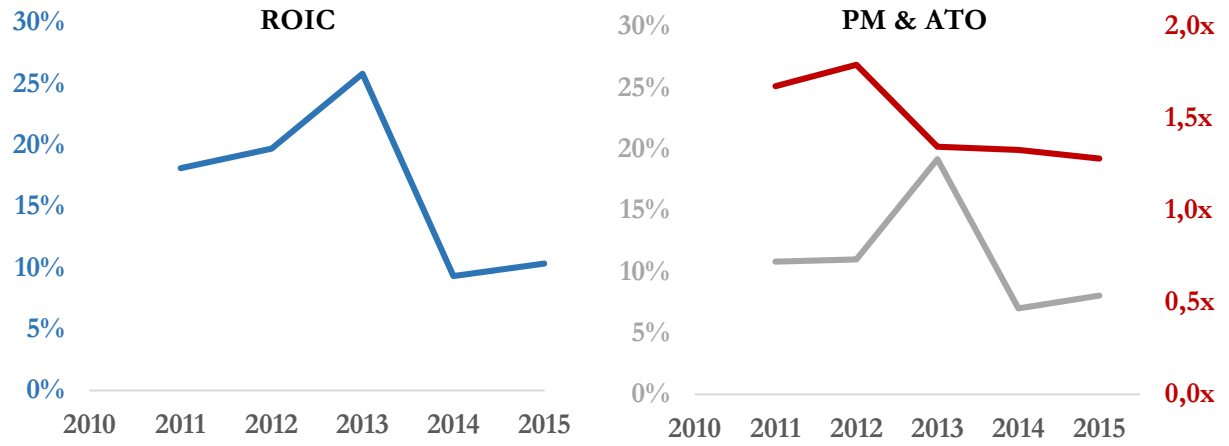
Source: Authors own compilation

General Mill's

ROIC

PM & ATO

Source: Authors own compilation

165

ConAgra Foods

ROIC

PM & ATO
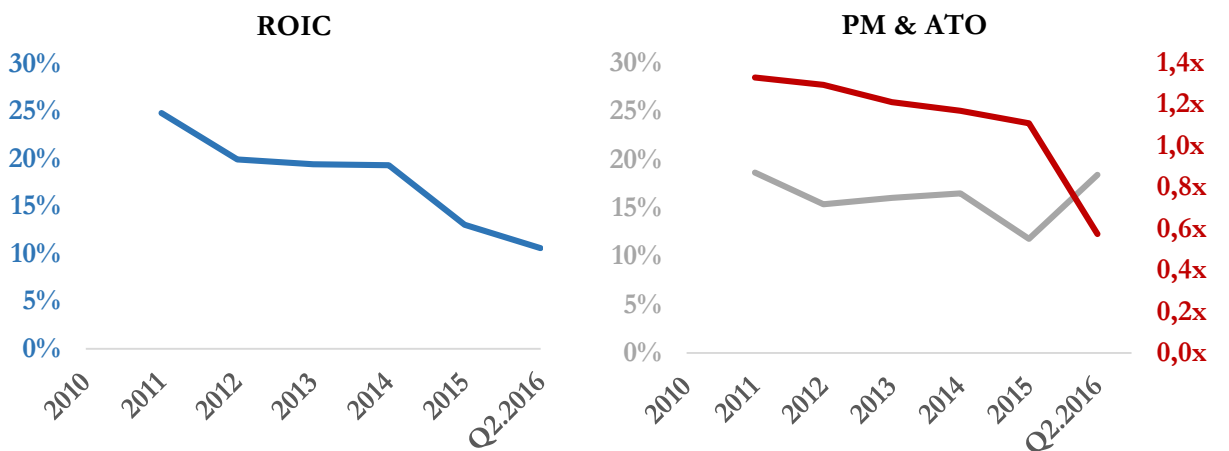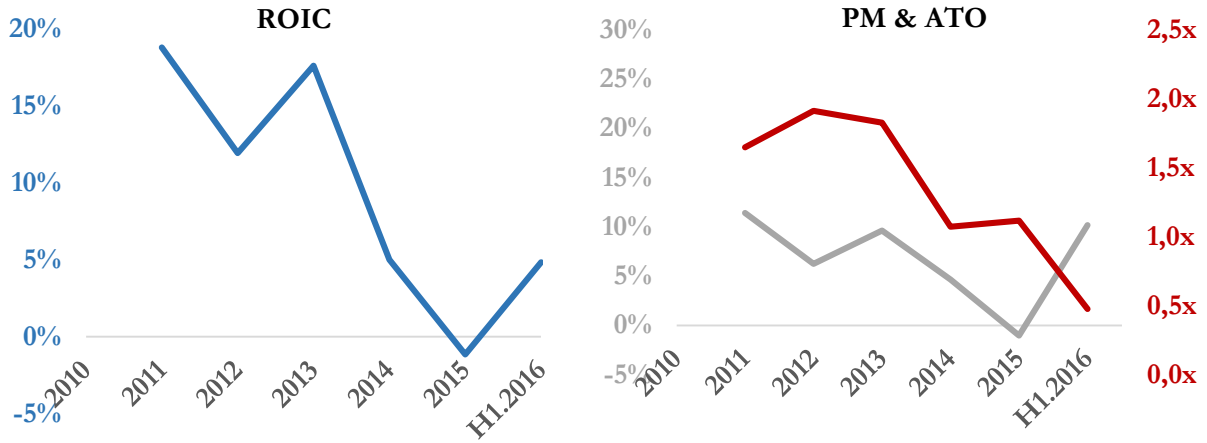
Source: Authors own compilation

The J.M. Smucker Company

ROIC

PM & ATO
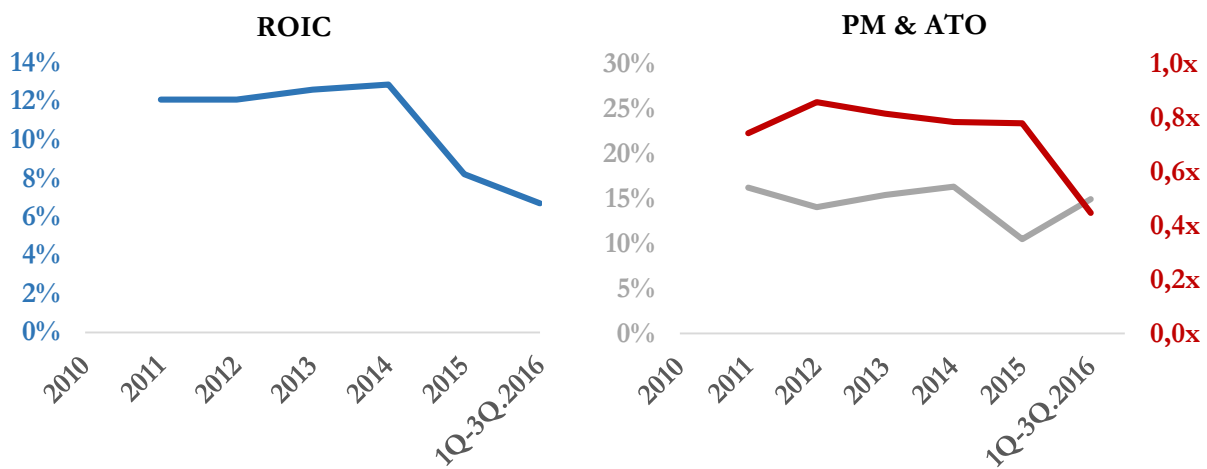
Source: Authors own compilation

A.16.   Peer Group – Liquidity Risk Analysis

Kellogg's	2010	2011	2012	2013	2014	2015	
Liquidity cycle	30.23	30.41	36.30	30.50	23.64	17.57	
Current ratio	0.92	0.93	0.75	0.85	0.77	0.56	
Quick ratio	0.58	0.57	0.45	0.53	0.47	0.35	
Solvency ratio							
based on book values	0.18	0.15	0.16	0.23	0.19	0.14	
based on market values	0.63	0.61	0.59	0.64	0.65	0.66	
Financial Leverage							
based on book values	2.66	3.41	3.43	2.04	2.70	3.95	
based on market values	0.35	0.38	0.47	0.35	0.34	0.33	

General Mills	2010	2011	2012	2013	2014	2015	H1.2016
Liquidity cycle	38.78	48.11	46.11	37.37	31.41	25.50	24.00
Current ratio	0.92	1.07	0.96	0.81	0.81	0.77	0.81
Quick ratio	0.57	0.63	0.58	0.52	0.52	0.46	0.52
Solvency ratio							
based on book values	0.32	0.35	0.33	0.31	0.30	0.25	0.24
based on market values	0.63	0.65	0.62	0.66	0.67	0.67	0.68
Financial Leverage							
based on book values	0.98	0.95	1.13	1.15	1.27	1.79	1.74
based on market values	0.27	0.28	0.34	0.27	0.27	0.28	0.25

ConAgra Foods	2010	2011	2012	2013	2014	2015	H1.2016
Liquidity cycle	54.48	53.47	50.82	63.35	48.77	46.45	63.08
Current ratio	1.94	1.83	1.45	1.29	1.60	1.11	0.99
Quick ratio	1.16	0.99	0.61	0.60	0.82	0.44	0.49
Solvency ratio							
based on book values	0.42	0.41	0.40	0.26	0.28	0.26	0.22
based on market values	0.66	0.69	0.68	0.56	0.61	0.64	0.67
Financial Leverage							
based on book values	0.51	0.48	0.62	1.75	1.64	1.67	2.22
based on market values	0.19	0.15	0.20	0.50	0.40	0.33	0.31

The J.M. Smucker Co.	2010	2011	2012	2013	2014	2015	1Q-3Q.2016
Liquidity cycle	112.21	107.79	91.97	85.75	89.73	99.47	74.95
Current ratio	3.39	3.39	2.66	2.67	1.74	2.01	1.79
Quick ratio	1.38	1.38	0.94	0.96	0.52	0.54	1.58
Solvency ratio							
based on book values	0.64	0.64	0.57	0.57	0.56	0.42	0.45
based on market values	0.67	0.72	0.67	0.73	0.70	0.54	0.63
Financial Leverage							
based on book values	0.23	0.22	0.40	0.39	0.45	0.89	0.70
based on market values	0.19	0.15	0.25	0.19	0.24	0.54	0.34

Kellogg's	2010	2011	2012	2013	2014	2015
EBITDA Coverage Ratio	9.71	7.71	7.70	14.34	7.31	7.16
EBIT Coverage Ratio	8.21	6.12	5.98	12.07	4.90	4.81
Funds from Operation / total debt		0.12	0.10	0.23	0.08	0.08
Free operating cash flow / total liabilities	0.46	0.35	0.37	0.56	0.28	0.30
ROIC (%)		18.1	19.7	25.8	9.3	10.3
Gross Margin (%)	43.1	39.0	38.3	41.3	34.7	34.6
Long-term debt/capital	0.28	0.30	0.31	0.28	0.26	0.22
Total Liabilities / Total Capital [market value of equity used]	0.36	0.37	0.40	0.36	0.34	0.34
EBITDA Coverage Ratio	A	A	A	AA	A	A
EBIT Coverage Ratio	BBB	BBB	BBB	A	BB	BB
Funds from Operation / total debt		B	B	BB	CCC	B
Free operating cash flow / total liabilities	AA	AA	AA	AA	AA	AA
ROIC		BBB	A	AA	B	B
Gross Margin	AAA	AAA	AAA	AAA	AAA	AAA
Long-term debt/capital	A	A	A	AA	AA	AA
Total Liabilities / Total Capital [market value of equity used]	AA	AA	A	AA	AA	AA
Average Rating	**A**	**BBB**	**BBB**	**A**	**BBB**	**BBB**

General Mills	2010	2011	2012	2013	2014	2015	H1 2016
EBITDA Coverage Ratio	7.63	9.38	8.82	10.85	11.72	8.45	12.62
EBIT Coverage Ratio	6.49	8.01	7.28	9.00	9.78	6.59	10.66
Funds from Operation / total debt		0.21	0.16	0.18	0.18	0.11	
Free operating cash flow / total liabilities	0.34	0.42	0.36	0.35	0.35	0.29	
ROIC (%)		24.8	19.9	19.4	19.3	13.1	10.6
Gross Margin (%)	42.8	43.2	39.5	39.5	38.8	37.1	39.2
Long-term debt/capital	0.29	0.27	0.29	0.24	0.23	0.24	0.23
Total Liabilities / Total Capital	0.36	0.34	0.37	0.33	0.32	0.32	0.31
EBITDA Coverage Ratio	A	A	A	AA	AA	A	AA
EBIT Coverage Ratio	BBB	BBB	BBB	BBB	A	BBB	A
Funds from Operation / total debt		BB	B	B	B	B	
Free operating cash flow / total liabilities	AA	AA	AA	AA	AA	AA	B
ROIC		AA	A	A	BBB	BB	B
Gross Margin	AAA	AAA	AAA	AAA	AAA	AAA	AAA
Long-term debt/capital	A	AA	A	AA	AA	AA	AA
Total Liabilities / Total Capital [market value of equity used]	AA	AA	AA	AA	AA	AA	AA
Average Rating	**A**	**A**	**A**	**A**	**A**	**BBB**	**BBB**

ConAgra Foods	2010	2011	2012	2013	2014	2015	H1. 2016
EBITDA Coverage Ratio	8.63	9.94	5.89	6.22	3.47	1.29	4.92
EBIT Coverage Ratio	6.61	7.91	4.06	4.70	1.95	-0.49	3.74
Funds from Operation / total debt		0.18	0.12	0.08	0.06	0.03	
Free operating cash flow / total liabilities		0.22	0.14	0.09	0.07	0.01	
ROIC (%)		18.8	12.0	17.6	5.0	-1.2	
Gross Margin (%)	28.1	26.6	24.1	28.1	25.8	24.6	29.2
Long-term debt/capital	0.26	0.24	0.24	0.38	0.34	0.29	0.25
Total Liabilities / Total Capital	0.31	0.28	0.32	0.44	0.39	0.35	0.33
EBITDA Coverage Ratio	A	A	BBB	A	BB	B	BBB
EBIT Coverage Ratio	BBB	BBB	BB	BB	B	CCC-	BB
Funds from Operation / total debt		B	B	B	CCC	CCC	
Free operating cash flow / total liabilities		A	BBB	BBB	BB	B	
ROIC	CCC-	BBB	BB	BBB	CCC	CCC-	
Gross Margin	AAA	AA	AA	AAA	AA	AA	AAA
Long-term debt/capital	AA	AA	AA	BBB	BBB	A	AA
Total Liabilities / Total Capital [market value of equity used]	AA	AA	AA	BBB	A	AA	AA
Average Rating	**A**	**BBB**	**BBB**	**BBB**	**BB**	**BB**	**A**

The J.M. Smucker Co.	2010	2011	2012	2013	2014	2015	1Q–3Q 2016
EBITDA Coverage Ratio	15.65	15.26	12.85	12.43	14.80	13.02	9.36
EBIT Coverage Ratio	12.67	11.69	9.75	9.75	11.57	7.49	6.89
Funds from Operation / total debt		0.24	0.18	0.20	0.20	0.06	
Free operating cash flow / total liabilities		0.28	0.20	0.24	0.22	0.07	
ROIC (%)		12.1	12.1	12.6	12.9	8.2	
Gross Margin (%)	41.2	40.7	36.3	37.0	39.0	37.3	40.7
Long-term debt/capital	0.29	0.25	0.29	0.24	0.25	0.43	0.34
Total Liabilities / Total Capital	0.23	0.19	0.19	0.15	0.16	0.23	0.20
EBITDA Coverage Ratio	AA	AA	AA	AA	AA	AA	A
EBIT Coverage Ratio	A	A	A	A	A	BBB	BBB
Funds from Operation / total debt		BB	B	BB	BB	CCC	
Free operating cash flow / total liabilities		AA	A	A	A	BB	
ROIC		BB	BB	BB	BB	B	
Gross Margin	AAA	AAA	AAA	AAA	AAA	AAA	AAA
Long-term debt/capital	A	AA	A	AA	AA	BB	BBB
Total Liabilities / Total Capital [market value of equity used]	AAA	AAA	AAA	AAA	AAA	AA	AAA
Average Rating	**AA**	**A**	**A**	**A**	**A**	**BBB**	**A**

A.18. Forecasting – Revenue Assumptions

	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Scenario 1 [Bear]	**2,38%**	**2,95%**	**2,75%**	**3,10%**	**3,17%**	**3,00%**	**2,90%**	**2,80%**	**2,60%**	**2,60%**
U.S. Market	**2,35%**	**2,36%**	**2,34%**	**2,50%**	**2,50%**					
Soup	2,7%	2,2%	1,9%	2,4%	2,4%					
Biscuits & Snacks	2,0%	2,2%	2,5%	2,7%	2,7%					
Sauces, Dressings etc.	3,6%	3,6%	3,2%	2,6%	2,6%					
Baked Goods	2,3%	2,4%	2,7%	2,7%	2,7%					
Juice	0,0%	1,0%	1,4%	1,9%	1,9%					
Ready Meals	1,1%	1,9%	2,0%	1,9%	1,9%					
Baby Food	4,1%	3,6%	3,2%	2,7%	2,7%					
Processed Meats and Seafood	2,9%	3,3%	3,3%	3,4%	3,4%					
Ice Cream & Frozen Desserts	1,1%	1,6%	2,0%	2,2%	2,2%					
Rice, Pasta, Noodles	1,8%	1,4%	1,2%	0,8%	0,8%					
Australia	**3,18%**	**3,23%**	**3,35%**	**3,51%**	**3,51%**					
Soup	4,1%	4,1%	4,2%	4,0%	4,0%					
Biscuits & Snacks	3,2%	3,2%	3,2%	3,4%	3,4%					
Sauces, Dressings etc.	4,0%	4,0%	4,0%	4,1%	4,1%					
Baked Goods	3,1%	3,6%	3,9%	4,1%	4,1%					
Juice	0,9%	1,2%	1,9%	2,3%	2,3%					
Other Countries	**2,07%**	**6,39%**	**4,86%**	**6,39%**	**6,75%**					

	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Scenario 2 [Base]	**2,64%**	**3,27%**	**3,06%**	**3,45%**	**3,53%**	**3,20%**	**3,00%**	**2,90%**	**2,60%**	**2,60%**
U.S. Market	**2,61%**	**2,62%**	**2,60%**	**2,78%**	**2,78%**					
Soup	3,0%	2,4%	2,1%	2,7%	2,7%					
Biscuits & Snacks	2,2%	2,4%	2,8%	3,0%	3,0%					
Sauces, Dressings etc.	4,0%	4,0%	3,5%	2,9%	2,9%					
Baked Goods	2,6%	2,7%	3,0%	3,0%	3,0%					
Juice	0,0%	1,1%	1,5%	2,1%	2,1%					
Ready Meals	1,2%	2,1%	2,2%	2,1%	2,1%					
Baby Food	4,5%	4,0%	3,5%	3,0%	3,0%					
Processed Meats and Seafood	3,2%	3,7%	3,7%	3,8%	3,8%					
Ice Cream & Frozen Desserts	1,2%	1,8%	2,2%	2,4%	2,4%					
Rice, Pasta, Noodles	2,0%	1,6%	1,3%	0,9%	0,9%					
Australia	**3,54%**	**3,59%**	**3,72%**	**3,90%**	**3,90%**					
Soup	4,6%	4,6%	4,7%	4,4%	4,4%					
Biscuits & Snacks	3,5%	3,5%	3,6%	3,8%	3,8%					
Sauces, Dressings etc.	4,4%	4,4%	4,4%	4,6%	4,6%					
Baked Goods	3,4%	4,0%	4,3%	4,5%	4,5%					
Juice	1,0%	1,3%	2,1%	2,6%	2,6%					
Other Countries	**2,30%**	**7,10%**	**5,40%**	**7,10%**	**7,50%**					

	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Scenario 3 [Bull]	**2,91%**	**3,60%**	**3,37%**	**3,80%**	**3,89%**	**3,50%**	**3,20%**	**3,00%**	**2,60%**	**2,60%**
U.S. Market	**2,87%**	**2,89%**	**2,86%**	**3,05%**	**3,06%**					
Soup	3,3%	2,6%	2,3%	3,0%	3,0%					
Biscuits & Snacks	2,4%	2,6%	3,1%	3,3%	3,3%					
Sauces, Dressings etc.	4,4%	4,4%	3,9%	3,2%	3,2%					
Baked Goods	2,9%	3,0%	3,3%	3,3%	3,3%					
Juice	0,0%	1,2%	1,7%	2,3%	2,3%					
Ready Meals	1,3%	2,3%	2,4%	2,3%	2,3%					
Baby Food	5,0%	4,4%	3,9%	3,3%	3,3%					
Processed Meats and Seafood	3,5%	4,1%	4,1%	4,2%	4,2%					
Ice Cream & Frozen Desserts	1,3%	2,0%	2,4%	2,6%	2,6%					
Rice, Pasta, Noodles	2,2%	1,8%	1,4%	1,0%	1,0%					
Australia	**3,89%**	**3,95%**	**4,09%**	**4,29%**	**4,29%**					
Soup	5,1%	5,1%	5,2%	4,8%	4,8%					
Biscuits & Snacks	3,9%	3,9%	4,0%	4,2%	4,2%					
Sauces, Dressings etc.	4,8%	4,8%	4,8%	5,1%	5,1%					
Baked Goods	3,7%	4,4%	4,7%	5,0%	5,0%					
Juice	1,1%	1,4%	2,3%	2,9%	2,9%					
Other Countries	**2,53%**	**7,81%**	**5,94%**	**7,81%**	**8,25%**					

A.19. Forecasting – Cost structure Assumptions

	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
COGS in % of Net Sales										
Scenario 1 [Bear]	61.50%	61.50%	61.50%	61.50%	61.50%	60.90%	60.30%	59.60%	59.00%	59.00%
Scenario 2 [Base]	61.50%	61.50%	61.50%	61.10%	60.70%	60.30%	59.80%	59.40%	59.00%	59.00%
Scenario 3 [Bull]	61.50%	61.50%	61.10%	60.80%	60.40%	60.10%	59.70%	59.40%	59.00%	59.00%
Marketing and Selling Expenses										
in % of Net Sales										
Scenario 1 [Bear]	10.50%	10.10%	9.70%	9.40%	9.50%	9.60%	9.60%	9.70%	9.70%	9.70%
Scenario 2 [Base]	10.30%	10.00%	9.40%	9.40%	9.50%	9.60%	9.60%	9.70%	9.70%	9.70%
Scenario 3 [Bull]	10.30%	10.00%	9.40%	9.10%	9.20%	9.30%	9.30%	9.40%	9.40%	9.40%
Administrative Expenses										
in % of Net Sales										
Scenario 1 [Bear]	7.90%	7.70%	7.40%	7.30%	7.30%	7.30%	7.40%	7.40%	7.40%	7.40%
Scenario 2 [Base]	6.30%	6.10%	5.70%	5.80%	5.80%	5.90%	5.90%	5.90%	5.90%	5.90%
Scenario 3 [Bull]	6.30%	6.10%	5.70%	5.80%	5.80%	5.90%	5.90%	5.90%	5.90%	5.90%
Research and Development Expenses										
in % of Net Sales										
Scenario 1 [Bear]	1.40%	1.30%	1.30%	1.20%	1.20%	1.20%	1.30%	1.30%	1.30%	1.30%
Scenario 2 [Base]	1.30%	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%
Scenario 3 [Bull]	1.30%	1.20%	1.20%	1.10%	1.10%	1.10%	1.20%	1.20%	1.20%	1.20%
Other Expenses in % of Net Sales										
Scenario 1 [Bear]	0.30%	0.30%	0.30%	0.20%	0.20%	0.30%	0.30%	0.30%	0.30%	0.30%
Scenario 2 [Base]	0.30%	0.30%	0.20%	0.20%	0.20%	0.30%	0.30%	0.30%	0.30%	0.30%
Scenario 3 [Bull]	0.30%	0.30%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%

Appendices

	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Restructuring Charges										
in % of Net Sales										
Scenario 1 [Bear]	1.30%	1.30%	1.30%	1.30%	1.10%	0.90%	0.80%	0.60%	0.40%	0.40%
Scenario 2 [Base]	1.30%	1.30%	1.30%	1.20%	1.00%	0.90%	0.70%	0.60%	0.40%	0.40%
Scenario 3 [Bull]	1.30%	1.30%	1.30%	1.30%	1.10%	1.00%	0.80%	0.60%	0.40%	0.40%
EBITDA Margin										
Scenario 1 [Bear]	17.27%	17.86%	18.59%	19.05%	19.10%	19.79%	20.49%	21.20%	21.92%	21.92%
Scenario 2 [Base]	19.11%	19.60%	20.67%	21.12%	21.57%	22.03%	22.50%	22.98%	23.47%	23.47%
Scenario 3 [Bull]	19.11%	19.64%	21.06%	21.62%	22.02%	22.43%	22.86%	23.29%	23.77%	23.77%
Depreciation & Amortization										
in % of (Invested Capital - NWC)										
Scenario 1 [Bear]	5.10%	5.10%	5.10%	5.10%	5.10%	5.10%	5.10%	5.10%	5.10%	5.10%
Scenario 2 [Base]	5.10%	5.10%	5.10%	5.10%	5.10%	5.10%	5.10%	5.10%	5.10%	5.10%
Scenario 3 [Bull]	5.10%	5.10%	5.10%	5.10%	5.10%	5.10%	5.10%	5.10%	5.10%	5.10%
Net Financial Cost										
Scenario 1 [Bear]	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Scenario 2 [Base]	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Scenario 3 [Bull]	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Effective Tax Rate on										
Operating Activities										
Scenario 1 [Bear]	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%
Scenario 2 [Base]	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%
Scenario 3 [Bull]	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%
NWC in % of Net Sales										
Scenario 1 [Bear]	-7.00%	-7.00%	-7.00%	-7.00%	-7.00%	-7.00%	-7.00%	-7.00%	-7.00%	-7.00%
Scenario 2 [Base]	-2.50%	-3.00%	-4.00%	-5.00%	-5.00%	-5.00%	-5.00%	-5.00%	-5.00%	-5.00%
Scenario 3 [Bull]	-5.00%	-5.00%	-5.00%	-5.00%	-5.00%	-5.00%	-5.00%	-5.00%	-5.00%	-5.00%

Appendices

	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
NIBD/Invested Capital										
Scenario 1 [Bear]	80.00%	80.00%	80.00%	80.00%	80.00%	80.00%	80.00%	80.00%	80.00%	80.00%
Scenario 2 [Base]	80.00%	80.00%	80.00%	80.00%	80.00%	80.00%	80.00%	80.00%	80.00%	80.00%
Scenario 3 [Bull]	80.00%	80.00%	80.00%	80.00%	80.00%	80.00%	80.00%	80.00%	80.00%	80.00%
Intangible & Tangible Assets in % of Net Sales										
Scenario 1 [Bear]	74.50%	75.00%	74.10%	73.20%	72.30%	71.40%	70.50%	69.60%	68.70%	68.70%
Scenario 2 [Base]	74.00%	74.00%	73.20%	72.50%	71.70%	71.00%	70.20%	69.40%	68.70%	68.70%
Scenario 3 [Bull]	73.00%	72.50%	72.00%	71.40%	70.90%	70.30%	69.80%	69.20%	68.70%	68.70%
Three Year Cost Savings Program										
Scenario 1 [Bear]	125	180	250	300	300	300	300	300	300	300
% of Net Sales	1.50%	2.10%	2.80%	3.30%	3.20%	3.10%	3.00%	2.90%	2.80%	2.80%
Scenario 2 [Base]	150	200	300	300	300	300	300	300	300	300
% of Net Sales	1.80%	2.30%	3.40%	3.30%	3.20%	3.10%	3.00%	2.90%	2.80%	2.80%
Scenario 3 [Bull]	150	200	300	350	350	350	350	350	350	350
% of Net Sales	1.80%	2.30%	3.40%	3.80%	3.70%	3.60%	3.50%	3.40%	3.30%	3.20%

Appendices

A.20. DCF - Forecasted Income statements

Base Case Scenario										
(US $ million)	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Total Net Sales	**8.296**	**8.567**	**8.830**	**9.135**	**9.457**	**9.760**	**10.052**	**10.344**	**10.613**	**10.889**
Cost of Product Sold (COGS) *D&A deducted	5.102	5.269	5.430	5.580	5.737	5.880	6.015	6.146	6.262	6.424
Gross Profit	**3.194**	**3.298**	**3.399**	**3.555**	**3.720**	**3.879**	**4.038**	**4.198**	**4.351**	**4.464**
Marketing and Selling Expenses	856	855	828	862	899	933	966	999	1029	1056
Administrative Expenses	520	525	508	529	551	572	592	613	631	648
Research and Development Expenses	105	106	102	107	111	115	120	124	127	131
Other Expenses	22	22	22	23	24	25	25	26	27	28
Restructuring Charges	105	111	115	106	96	85	73	60	46	47
Total Operating Expenses	1608	1619	1574	1626	1680	1729	1776	1821	1861	1909
EBITDA	**1585**	**1679**	**1825**	**1929**	**2040**	**2150**	**2262**	**2377**	**2491**	**2555**
Depreciation & Amortization	323	336	347	360	369	377	385	392	398	409
Earnings before Interest and Taxes (EBIT)	**1262**	**1343**	**1478**	**1569**	**1670**	**1773**	**1877**	**1985**	**2092**	**2147**
Tax on Operating Activities	379	403	443	471	501	532	563	595	628	644
NOPAT	**884**	**940**	**1035**	**1098**	**1169**	**1241**	**1314**	**1389**	**1465**	**1503**
Interest Expense										
Interest Income										
Net Financial Expenses before Tax	**142**	**146**	**147**	**148**	**151**	**154**	**157**	**160**	**162**	**166**
Tax Shield	43	44	44	44	45	46	47	48	49	50
Earnings before cumulative effect of accounting change	**784**	**838**	**932**	**995**	**1063**	**1133**	**1204**	**1277**	**1351**	**1386**
Net Earnings attributable to Noncontrolling Interests										
Earnings from Discontinued Operations										
Cumulative effect of change in Accounting Principles										
Net Earnings	**784**	**838**	**932**	**995**	**1063**	**1133**	**1204**	**1277**	**1351**	**1386**

Appendices

Bear Case Scenario										
(US $ million)	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Total Net Sales	**8.274**	**8.518**	**8.753**	**9.024**	**9.311**	**9.609**	**9.897**	**10.184**	**10.449**	**10.720**
Cost of Product Sold (COGS) *D&A deducted	5.089	5.239	5.383	5.550	5.726	5.849	5.963	6.072	6.165	6.325
Gross Profit	**3.186**	**3.279**	**3.370**	**3.474**	**3.585**	**3.759**	**3.934**	**4.112**	**4.284**	**4.395**
Marketing and Selling Expenses	867	869	858	863	895	929	961	994	1024	1050
Administrative Expenses	650	645	638	641	665	690	715	739	761	781
Research and Development Expenses	112	112	111	112	116	120	124	129	132	136
Other Expenses	23	23	23	23	24	24	25	26	27	28
Restructuring Charges	104	108	110	114	102	89	76	61	45	46
Total Operating Expenses	1757	1757	1740	1752	1802	1853	1901	1948	1989	2041
EBITDA	**1429**	**1523**	**1630**	**1722**	**1783**	**1906**	**2033**	**2164**	**2295**	**2354**
Depreciation & Amortization	343	356	361	369	376	384	390	397	403	413
Earnings before Interest and Taxes (EBIT)	**1086**	**1167**	**1268**	**1354**	**1407**	**1523**	**1642**	**1767**	**1892**	**1941**
Tax on Operating Activities	326	350	380	406	422	457	493	530	568	582
NOPAT	**760**	**817**	**888**	**948**	**985**	**1066**	**1150**	**1237**	**1324**	**1359**
Interest Expense										
Interest Income										
Net Financial Expenses before Tax	**134**	**139**	**141**	**143**	**146**	**148**	**151**	**153**	**155**	**159**
Tax Shield	40	42	42	43	44	45	45	46	46	48
Earnings before cumulative effect of accounting change	**666**	**719**	**789**	**847**	**883**	**962**	**1044**	**1130**	**1216**	**1248**
Net Earnings attributable to Non-Controlling Interests										
Earnings from Discontinued Operations										
Cumulative effect of change in Accounting Principles										
Net Earnings	**666**	**719**	**789**	**847**	**883**	**962**	**1044**	**1130**	**1216**	**1248**

Appendices

Bull Case Scenario										
	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Total Net Sales	**8.317**	**8.617**	**8.907**	**9.246**	**9.606**	**9.913**	**10.210**	**10.506**	**10.780**	**11.060**
Cost of Product Sold (COGS) *D&A deducted	5.115	5.299	5.446	5.620	5.804	5.955	6.097	6.236	6.360	6.525
Gross Profit	**3.202**	**3.317**	**3.461**	**3.626**	**3.801**	**3.958**	**4.113**	**4.270**	**4.420**	**4.535**
Marketing and Selling Expenses	859	861	837	847	890	924	958	991	1022	1049
Administrative Expenses	521	528	513	536	559	581	602	622	641	658
Research and Development Expenses	106	106	103	105	110	114	118	123	126	130
Other Expenses	22	23	22	22	23	24	25	26	27	28
Restructuring Charges	105	109	112	120	109	96	82	67	47	48
Total Operating Expenses	1613	1626	1588	1631	1691	1740	1785	1829	1863	1911
EBITDA	**1589**	**1691**	**1873**	**1995**	**2110**	**2218**	**2328**	**2441**	**2557**	**2623**
Depreciation & Amortization	330	340	349	360	371	380	389	397	404	415
Earnings before Interest and Taxes (EBIT)	**1259**	**1351**	**1524**	**1635**	**1739**	**1838**	**1940**	**2044**	**2152**	**2208**
Tax on Operating Activities	378	405	457	491	522	551	582	613	646	662
NOPAT	**881**	**946**	**1067**	**1145**	**1217**	**1287**	**1358**	**1431**	**1507**	**1546**
Interest Expense										
Interest Income										
Net Financial Expenses before Tax	**136**	**140**	**143**	**147**	**152**	**155**	**159**	**162**	**165**	**169**
Tax Shield	41	42	43	44	46	47	48	49	49	51
Earnings before cumulative effect of accounting change	**786**	**848**	**967**	**1042**	**1111**	**1178**	**1247**	**1318**	**1391**	**1427**
Net Earnings attributable to Non-Controlling Interests										
Earnings from Discontinued Operations										
Cumulative effect of change in Accounting Principles										
Net Earnings	**786**	**848**	**967**	**1042**	**1111**	**1178**	**1247**	**1318**	**1391**	**1427**

Appendices

A.21. DCF - Forecasted Analytical Balance Sheet

Base Case Scenario

	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Intangible & Tangible Assets	**6.139**	**6.340**	**6.467**	**6.620**	**6.782**	**6.925**	**7.056**	**7.182**	**7.288**	**7.477**
Net Working Capital	-207	-257	-353	-457	-473	-488	-503	-517	-531	-544
Invested Capital, Net Operating Assets	**5.931**	**6.083**	**6.113**	**6.164**	**6.309**	**6.437**	**6.554**	**6.665**	**6.757**	**6.933**
Total Equity	**1.186**	**1.217**	**1.223**	**1.233**	**1.262**	**1.287**	**1.311**	**1.333**	**1.351**	**1.387**
Net Interest Bearing Debt	4.745	4.866	4.891	4.931	5.047	5.150	5.243	5.332	5.406	5.546
Invested Capital, Net Operating Liabilities	**5.931**	**6.083**	**6.113**	**6.164**	**6.309**	**6.437**	**6.554**	**6.665**	**6.757**	**6.933**

Bear Case Scenario

	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Intangible & Tangible Assets	**6.164**	**6.389**	**6.485**	**6.605**	**6.730**	**6.859**	**6.975**	**7.085**	**7.175**	**7.362**
Net Working Capital	-579	-596	-613	-632	-652	-673	-693	-713	-731	-750
Invested Capital, Net Operating Assets	**5.585**	**5.792**	**5.873**	**5.973**	**6.079**	**6.186**	**6.282**	**6.372**	**6.444**	**6.611**
Total Equity	**1.117**	**1.158**	**1.175**	**1.195**	**1.216**	**1.237**	**1.256**	**1.274**	**1.289**	**1.322**
Net Interest Bearing Debt	4.468	4.634	4.698	4.779	4.863	4.949	5.026	5.098	5.155	5.289
Invested Capital, Net Operating Liabilities	**5.585**	**5.792**	**5.873**	**5.973**	**6.079**	**6.186**	**6.282**	**6.372**	**6.444**	**6.611**

Appendices

Bull Case Scenario										
	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Intangible & Tangible Assets	6.072	6.247	6.409	6.602	6.806	6.970	7.123	7.272	7.402	7.595
	-	-	-	-	-	-	-	-	-	-
Net Working Capital	416	431	445	462	480	496	511	525	539	553
Invested Capital, Net Operating Assets	5.656	5.816	5.964	6.140	6.326	6.474	6.613	6.747	6.863	7.042
Total Equity	1.131	1.163	1.193	1.228	1.265	1.295	1.323	1.349	1.373	1.408
Net Interest Bearing Debt	4.525	4.653	4.771	4.912	5.061	5.179	5.290	5.398	5.491	5.633
Invested Capital, Net Operating Liabilities	5.656	5.816	5.964	6.140	6.326	6.474	6.613	6.747	6.863	7.042

A.22. DCF - Forecasted Cash Flow Statement

Base Case Scenario										
	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Shareholders' Equity										
Primo	1.376	1.186	1.217	1.223	1.233	1.262	1.287	1.311	1.333	1.351
Net Earnings	784	838	932	995	1.063	1.133	1.204	1.277	1.351	1.386
Dividends pay out	974	808	926	985	1.034	1.107	1.181	1.255	1.333	1.351
Ultimo	1.186	1.217	1.223	1.233	1.262	1.287	1.311	1.333	1.351	1.387
NIBD	4.745	4.866	4.891	4.931	5.047	5.150	5.243	5.332	5.406	5.546
Capex										
Invested Capital Ultimo	5.931	6.083	6.113	6.164	6.309	6.437	6.554	6.665	6.757	6.933
Intangible & Tangible Assets - Ultimo	6.139	6.340	6.467	6.620	6.782	6.925	7.056	7.182	7.288	7.477
D&A	323	336	347	360	369	377	385	392	398	409
Intangible & Tangible Assets - Primo	5.950	6.139	6.340	6.467	6.620	6.782	6.925	7.056	7.182	7.288
Capex	512	537	474	514	531	520	516	518	504	598
Cash Flow Statement										
NOPAT (+)	884	940	1.035	1.098	1.169	1.241	1.314	1.389	1.465	1.503
D&A (+)	323	336	347	360	369	377	385	392	398	409
NWC (-)	71	50	96	104	16	15	15	15	13	14
CAPEX (-)	512	537	474	514	531	520	516	518	504	598
FCFF	**766**	**789**	**1.004**	**1.048**	**1.024**	**1.113**	**1.197**	**1.278**	**1.372**	**1.327**
NIBD (+)	307	121	25	40	117	102	93	89	74	141
Net Financial Expenses (-)	142	146	147	148	151	154	157	160	162	166
Tax Shield (+)	43	44	44	44	45	46	47	48	49	50
FCFE	**974**	**808**	**926**	**985**	**1.034**	**1.107**	**1.181**	**1.255**	**1.333**	**1.351**
Dividends	974	808	926	985	1.034	1.107	1.181	1.255	1.333	1.351
Cash Surplus										

Appendices

Bear Case Scenario										
	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Shareholders' Equity										
Primo	1.376	1.117	1.158	1.175	1.195	1.216	1.237	1.256	1.274	1.289
Net Earnings	666	719	789	847	883	962	1.044	1.130	1.216	1.248
Dividends pay out	925	678	773	827	862	941	1.025	1.111	1.202	1.214
Ultimo	1.117	1.158	1.175	1.195	1.216	1.237	1.256	1.274	1.289	1.322
NIBD	4.468	4.634	4.698	4.779	4.863	4.949	5.026	5.098	5.155	5.289
Invested Capital Ultimo	5.585	5.792	5.873	5.973	6.079	6.186	6.282	6.372	6.444	6.611
Capex										
Intangible & Tangible Assets - Ultimo	6.164	6.389	6.485	6.605	6.730	6.859	6.975	7.085	7.175	7.362
D&A	343	356	361	369	376	384	390	397	403	413
Intangible & Tangible Assets - Primo	5.950	6.164	6.389	6.485	6.605	6.730	6.859	6.975	7.085	7.175
Capex	558	580	458	488	501	512	507	507	492	600
Cash Flow Statement										
NOPAT (+)	760	817	888	948	985	1.066	1.150	1.237	1.324	1.359
D&A (+)	343	356	361	369	376	384	390	397	403	413
NWC (-)	443	17	16	19	20	21	20	20	19	19
CAPEX (-)	558	580	458	488	501	512	507	507	492	600
FCFF	**989**	**610**	**807**	**847**	**880**	**958**	**1.054**	**1.146**	**1.253**	**1.191**
NIBD (+)	30	166	64	81	84	86	77	72	57	134
Net Financial Expenses (-)	134	139	141	143	146	148	151	153	155	159
(+)	40	42	42	43	44	45	45	46	46	48
FCFE	**925**	**678**	**773**	**827**	**862**	**941**	**1.025**	**1.111**	**1.202**	**1.214**
Dividends	925	678	773	827	862	941	1.025	1.111	1.202	1.214
Cash Surplus										

Bull Case Scenario

	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Shareholders' Equity										
Primo	1.376	1.131	1.163	1.193	1.228	1.265	1.295	1.323	1.349	1.373
Net Earnings	786	848	967	1.042	1.111	1.178	1.247	1.318	1.391	1.427
Dividends pay out	1.031	816	937	1.006	1.073	1.148	1.219	1.291	1.368	1.392
Ultimo	1.131	1.163	1.193	1.228	1.265	1.295	1.323	1.349	1.373	1.408
NIBD	4.525	4.653	4.771	4.912	5.061	5.179	5.290	5.398	5.491	5.633
Invested Capital Ultimo	5.656	5.816	5.964	6.140	6.326	6.474	6.613	6.747	6.863	7.042
Capex										
Intangible & Tangible Assets - Ultimo	6.072	6.247	6.409	6.602	6.806	6.970	7.123	7.272	7.402	7.595
D&A	330	340	349	360	371	380	389	397	404	415
Intangible & Tangible Assets - Primo	5.950	6.072	6.247	6.409	6.602	6.806	6.970	7.123	7.272	7.402
Capex	452	516	511	553	575	544	542	546	535	607
Cash Flow Statement										
NOPAT (+)	881	946	1.067	1.145	1.217	1.287	1.358	1.431	1.507	1.546
D&A (+)	330	340	349	360	371	380	389	397	404	415
NWC (-)	280	15	15	17	18	15	15	15	14	14
CAPEX (-)	452	516	511	553	575	544	542	546	535	607
FCFF	**1.040**	**785**	**920**	**969**	**1.031**	**1.139**	**1.219**	**1.297**	**1.390**	**1.367**
NIBD (+)	87	128	118	141	149	119	111	107	93	143
Net Financial Expenses (-)	136	140	143	147	152	155	159	162	165	169
(+)	41	42	43	44	46	47	48	49	49	51
FCFE	**1.031**	**816**	**937**	**1.006**	**1.073**	**1.148**	**1.219**	**1.291**	**1.368**	**1.392**
Dividends	1.031	816	937	1.006	1.073	1.148	1.219	1.291	1.368	1.392
Cash Surplus										

A.23.   Beta

The following appendix describes the various approaches used in order to derive at a representative beta for Campbell in relation to its cost of capital.

Summary Table	1Y	2Y	3Y	5Y
CPB Regression Beta	0.22	0.33	0.41	0.41
Blume adjusted beta	0.48	0.55	0.61	0.61
CPB_D/E	*0.20*	*0.26*	*0.29*	*0.31*
CPB unlevered beta	*0.18*	*0.26*	*0.32*	*0.31*
CPB unlevered beta [Blume adjusted]	*0.40*	*0.44*	*0.47*	*0.46*
K Regression Beta	0.22	0.33	0.39	0.39
Blume adjusted [Beta]	0.48	0.55	0.59	0.59
K_D/E	0.33	0.34	0.34	0.37
K unlevered beta	*0.17*	*0.24*	*0.29*	*0.28*
K unlevered beta [Blume adjusted]	*0.36*	*0.41*	*0.44*	*0.43*
GIS Regression Beta	0.64	0.62	0.62	0.37
Blume adjusted [Beta]	0.76	0.75	0.75	0.58
GIS_D/E	0.25	0.27	0.27	0.28
GIS unlevered beta	*0.51*	*0.49*	*0.49*	*0.29*
GIS unlevered beta [Blume adjusted]	*0.61*	*0.59*	*0.59*	*0.45*
CAG Regression Beta	0.58	0.39	0.41	0.53
Blume adjusted [Beta]	0.72	0.60	0.61	0.69
CAG_D/E	0.32	0.34	0.38	0.33
CAG unlevered beta	*0.44*	*0.29*	*0.30*	*0.40*
CAG unlevered beta [Blume adjusted]	*0.55*	*0.44*	*0.44*	*0.51*
SJM Regression Beta	0.02	0.30	0.39	0.44
Blume adjusted [Beta]	0.34	0.53	0.59	0.63
SJM_D/E	0.34	0.40	0.34	0.29
SJM unlevered beta	*0.01*	*0.21*	*0.29*	*0.34*
SJM unlevered beta [Blume adjusted]	*0.26*	*0.38*	*0.44*	*0.48*
Peer average				
Unlevered beta	*0.26*	*0.30*	*0.34*	*0.32*
Unlevered Blume adjusted beta	*0.43*	*0.45*	*0.48*	*0.47*
D / E	*0.29*	*0.32*	*0.32*	*0.32*
marginal tax rate	*34%*	*34%*	*34%*	*34%*
re-levered	**0.31**	**0.36**	**0.41**	**0.39**
re-levered Blume adjusted	**0.54**	**0.58**	**0.61**	**0.60**

as of 27-04-2016	*Thomson Reuters*	*Yahoo Finance*
CPB	*0.37*	*0.29*
K	*0.48*	*0.49*
GIS	*0.36*	*0.64*
CAG	*0.35*	*0.22*
SJM	*0.51*	*0.56*

Source: Authors own compilation

13.1.1   Regression Beta – Campbell

1 Year Beta		CPB	NYSE
Variance of Returns		0.0023	0.0018
Standard Deviation of Returns		0.0475	0.0430
Correlation			0.1984
Raw Beta	**0.2191**		

2 Year Beta		CPB	NYSE
Variance of Returns		0.0020	0.0013
Standard Deviation of Returns		0.0444	0.0366
Correlation			0.2692
Raw Beta	**0.3261**		

3 Year Beta		CPB	NYSE
Variance of Returns		0.0024	0.0012
Standard Deviation of Returns		0.0494	0.0347
Correlation			0.2868
Raw Beta	**0.4084**		

5 Year Beta		CPB	NYSE
Variance of Returns		0.0024	0.0016
Standard Deviation of Returns		0.0490	0.0399
Correlation			0.3346
Raw Beta	**0.4102**		

Regression Results: Rolling Betas & Latest Beta (Based on Monthly data)
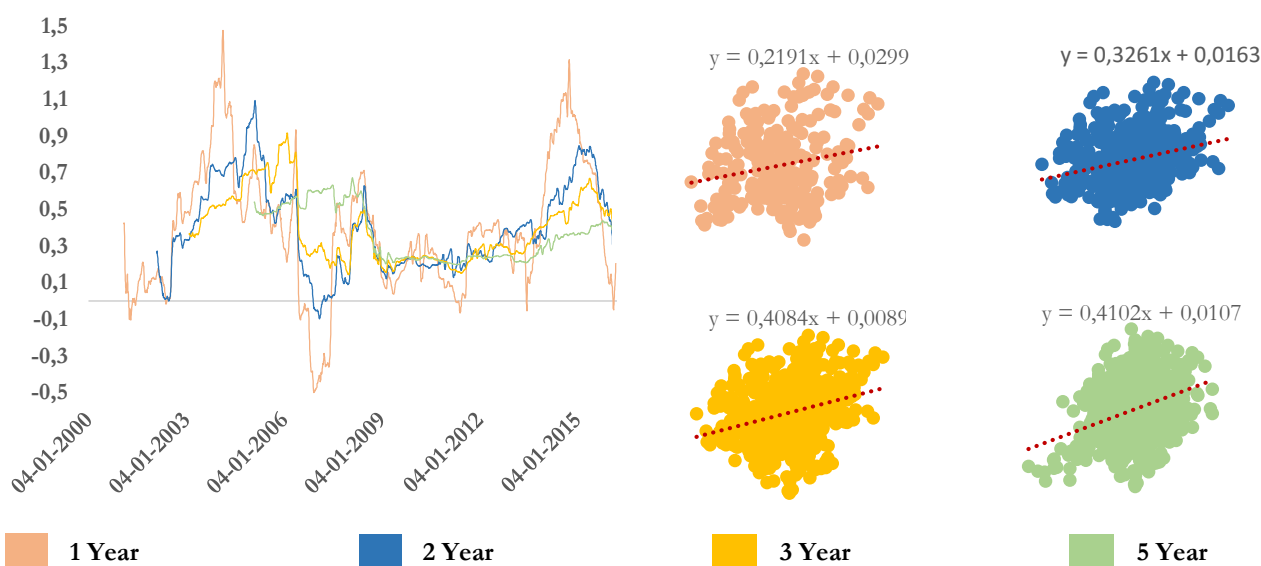
$y = 0,2191x + 0,0299$

$y = 0,3261x + 0,0163$

$y = 0,4084x + 0,0089$

$y = 0,4102x + 0,0107$

1 Year   2 Year   3 Year   5 Year

Source: Authors own compilation based on share price and index data for Campbell Soup Company and the New York Stock Exchange

Kellogg Beta		K	NYSE
Variance of Returns		0.0016	0.0016
Standard Deviation of Returns		0.0401	0.0399
Correlation			0.3858
Raw Beta	**0.3884**		

General Mills Beta		GIS	NYSE
Variance of Returns		0.0013	0.0016
Standard Deviation of Returns		0.0367	0.0399
Correlation			0.4068
Raw Beta	**0.3739**		

ConAgra Foods Beta		CAG	NYSE
Variance of Returns		0.0030	0.0016
Standard Deviation of Returns		0.0549	0.0399
Correlation			0.3842
Raw Beta	**0.5284**		

The J.M. Smucker Co. Beta		SJM	NYSE
Variance of Returns		0.0020	0.0016
Standard Deviation of Returns		0.0449	0.0399
Correlation			0.3897
Raw Beta	**0.4381**		

Regression Results: Rolling Betas & Latest Beta (Based on Monthly data)
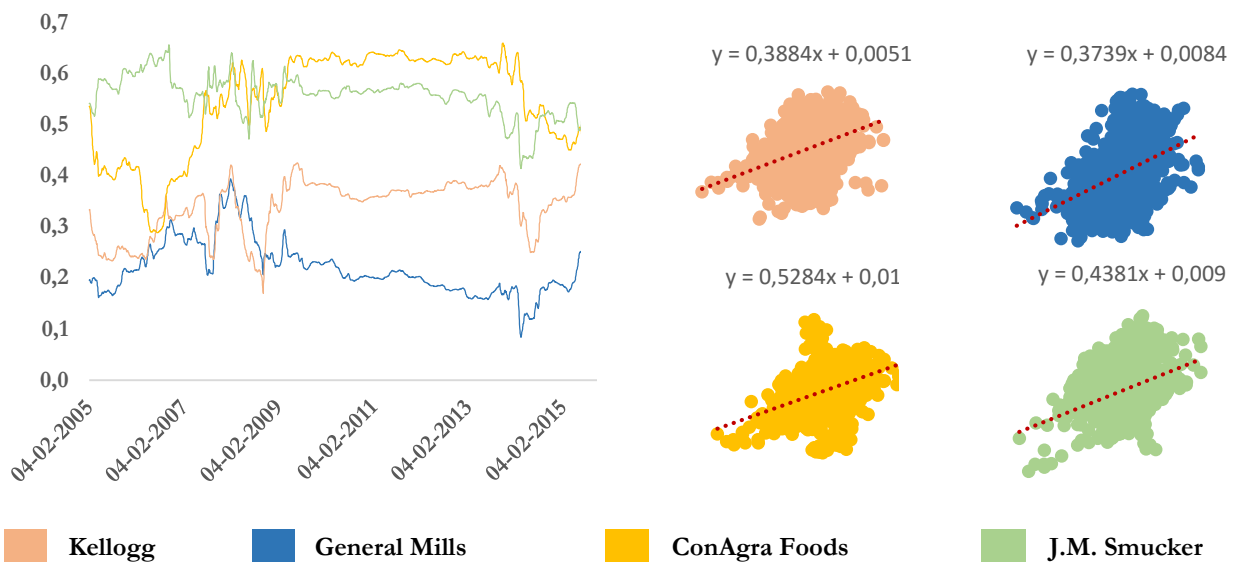
$y = 0,3884x + 0,0051$

$y = 0,3739x + 0,0084$

$y = 0,5284x + 0,01$

$y = 0,4381x + 0,009$

Kellogg   General Mills   ConAgra Foods   J.M. Smucker

Source: Authors own compilation based on share price and index data for Campbell Soup Company and the New York Stock Exchange

When unlevering betas, shouldn't the D/E ratio match the time period used in the regression?

3 e-mails

Adam Sagedahl <adamsagedahl@gmail.com>   7. november 2015 kl. 01.04

Til: adamodar@stern.nyu.edu

Dear Mr. Damodaran,
My name is Adam Sagedahl and I am student at the Copenhagen Business School. I know you must be very busy, but I hope you find time to take 1 minute to answer my question. At my school you are highly regarded and it would be a great honor if you took the time to answer my question. I also hope you find it a bit interesting as well. I have looked for research on this matter but have not been able to find anything. I am looking into the D/E ratios used when unlevering betas, I would believe that a better estimate for unlevered beta could be reached if the average D/E for the corresponding time period was used. Do you have any thoughts on this matter that could help guide my research?
Any answer would be greatly appreciated
Kind regards,
Adam Sagedahl

Aswath Damodaran <adamodar@stern.nyu.edu>   7. november 2015 kl. 13.46

Til: Adam Sagedahl <adamsagedahl@gmail.com>

Adam,
Technically, you are absolutely right. Practically, since you are doing this for dozens of firms in computing a bottom up beta, it does not really make a difference, unless there has been a sector-wide increase or decrease in debt ratios.
Aswath Damodaran
adamodar@stern.nyu.edu
http://www.damodaran.com

Adam Sagedahl <adamsagedahl@gmail.com>   7. november 2015 kl. 14.38

Til: Aswath Damodaran <adamodar@stern.nyu.edu>

Dear Professor Damodaran,

Thank you for taking the time to answer my email so swiftly. It is greatly appreciated.

Kind regards,

Adam Sagedahl

[Sitert tekst skjult]

Campbell Soup: Corporate Bonds

Currency	Maturity Date	Amount $ (Mil)	Price	Coupon %	Coupon Type	Yield to Maturity	Fair Value
USD	04/15/2021	500.0	109.5	4.250	Fixed	2.22	547.5
USD	08/02/2022	450.0	102.3	2.500	Fixed	2.11	460.3
USD	07/15/2017	400.0	102.4	3.050	Fixed	1.09	409.6
USD	08/02/2042	400.0	90.9	3.800	Fixed	4.39	363.6
USD	02/15/2019	300.0	108.3	3.300	Fixed	1.45	324.9
USD	03/19/2025	300.0	103.2	2.890	Fixed	2.89	309.6
USD	05/01/2021	200.0	127.4	8.875	Fixed	2.97	254.8
Total / Weighted Average	**05/01/2024**	**2.550.0**	**104.7**	**3.773**	**Fixed**	**3.10**	**2.670.4**

Source: Authors own compilation based on data from (Morningstar, 2016)

A.26. Capital Structure

The figure below illustrates the historical capital structure of Campbell Soup Company. Over the last few years the debt-to-equity ratio has been decreasing driven by both an increasing valuation of its equity and by a nominal reduction in debt. The calculation of debt-to-equity is based on market values and in 2016 the ratio represented 20%.

Capital Structure of Campbell Soup Company
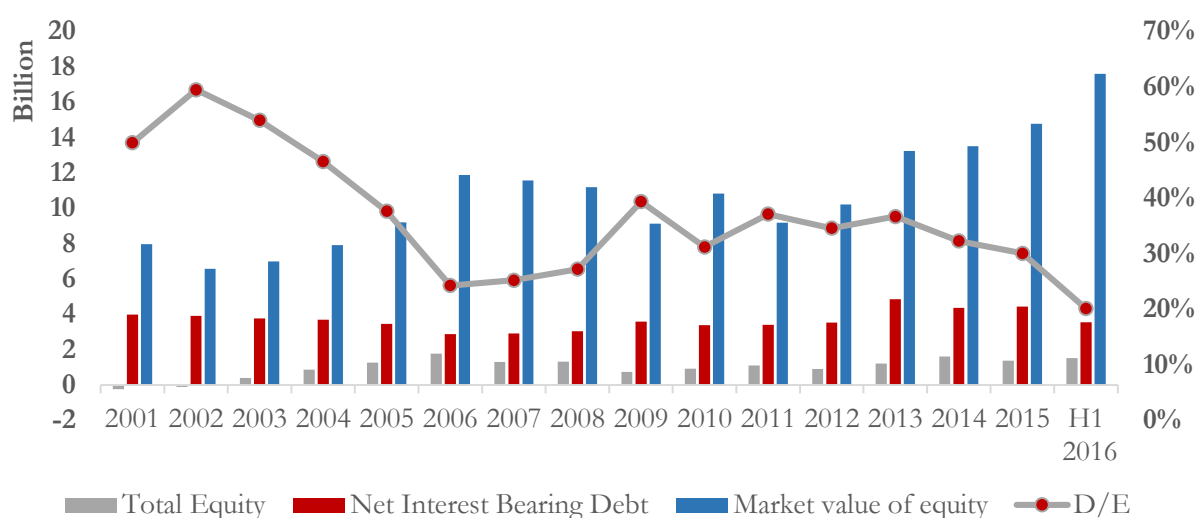
Source: Authors own compilation

A.27. Weighted Average Cost of Capital

Monte Carlo WACC Simulation

Bins	Average	Count	Cumulative Probability	Probability	Theoretical Frequency
2,9%	2,82%	53	0,63%	0,63%	629
3,0%	3,0%	1.140	1,48%	0,85%	848
3,2%	3,1%	2.157	3,17%	2,40%	2.400
3,4%	3,3%	2.232	6,21%	3,97%	3.971
3,5%	3,5%	4.067	11,15%	5,99%	5.986
3,7%	3,6%	8.284	18,42%	8,22%	8.221
3,9%	3,8%	10.809	28,09%	10,29%	10.285
4,0%	4,0%	12.393	39,71%	11,72%	11.723
4,2%	4,1%	13.085	52,32%	12,17%	12.172
4,4%	4,3%	11.783	64,71%	11,52%	11.515
4,6%	4,5%	10.858	75,70%	9,92%	9.923
4,7%	4,6%	8.802	84,52%	7,79%	7.791
4,9%	4,8%	5.440	90,91%	5,57%	5.572
5,1%	5,0%	2.706	95,10%	3,63%	3.631
5,2%	5,2%	2.044	97,58%	2,16%	2.155
5,4%	5,3%	1.922	98,91%	1,17%	1.166
5,8%	5,5%	2.196	99,87%	0,57%	574
More	5,8%	19	100,00%	0,42%	-

Weighted Average:	4,09%
Max	5,90%
Min	2,75%
Range	3,2%
Average	4,19%
Standard Deviation	0,54%
Lower Bound	4,18%
Upper Bound	4,19%
Count	99990
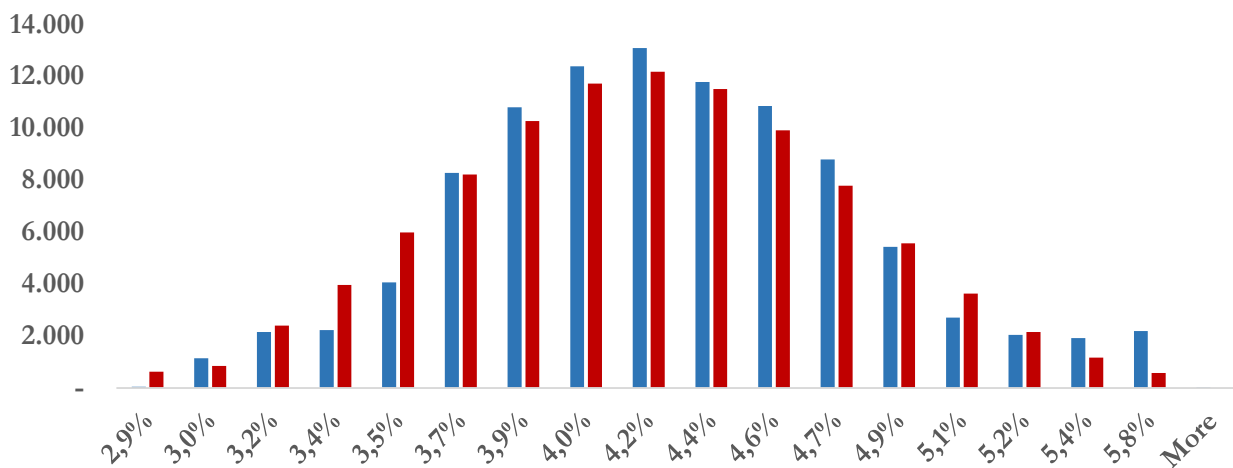
Base Case Weighted Average Cost of Capital	
Tax	
Marginal Tax Rate	34.0%
Capital Structure (Target)	
D/EV	0.225
E/EV	0.775
Debt Cost of Capital	**3.96%**
Equity Cost of Capital	
Risk Free Rate	1.94%
Adjusted Beta	0.6
Market Risk Premium	5.35%
Equity Cost of Capital	**5.15%**

Weighted Average Cost of Capital

WACC

WACC Distribution					
Source of Capital	Proportion of Total Capital	Cost of Capital	Marginal Tax rate	After Tax Cost of Capital	Contribution to WACC
Debt	22.5%	3.96%	34.0%	2.62%	0.59%
Equity	77.5%	5.15%		5.15%	3.99 %
WACC					4.6%

Source: Authors own compilation

A.28. DCF Valuation

(USD million)	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
FCFF	766	789	1.004	1.048	1.024	1.129	1.226	1.311	1.411	1.354
WACC	4.6 %	4.6 %	4.6 %	4.6 %	4.6 %	4.6 %	4.6 %	4.6 %	4.6 %	4.6 %
Discounting Factor	0.96	0.91	0.87	0.84	0.80	0.76	0.73	0.70	0.67	0.64
PV of FCFF	732	721	877	875	817	862	895	915	941	863
Total PV of FCFF in budget period	7.908									
PV of FCFF in Terminal period	30.165									
Implied EV/EBITDA [Gordons Growth]		15.2	17.7	17.5	16.2	17.0	17.6	18.1	18.7	17.7
EBITDA	1.585	1.679	1.825	1.929	2.040	2.145	2.245	2.343	2.431	2.468
EV/EBITDA multiple	10.0x	10.0x	10.0x	10.0x	10.0x	10.0x	10.0x	10.0x	10.0x	10.0x
Multiple Implied Enterprise Value	15.855	16.792	18.252	19.291	20.397	21.448	22.449	23.429	24.315	24.679
PV of EV in Terminal Period [Multiple Implied]	17.048									

Estimated EV [Gordon Growth]	**38.072**	**Terminal Growth rate:**	**2.6%**
Estimated EV [Multiple Implied Terminal Value]	**24.956**		
NIBD	*4.745*		
Estimated Market Value of Equity [Gordons Growth]	**33.327**		
Estimated Market Value of Equity [Multiple Implied Terminal value]	**20.211**		

Appendices

(USD million)	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
NOPAT	884	940	1.035	1.098	1.169	1.238	1.304	1.370	1.431	1.452
Invested Capital Primo	5.814	5.931	6.083	6.113	6.164	6.309	6.418	6.496	6.555	6.575
WACC	4.60%	4.60%	4.60%	4.60%	4.60%	4.60%	4.60%	4.60%	4.60%	4.60%
Capital Costs	267	273	280	281	284	290	295	299	302	302
EVA	616	667	755	817	886	948	1.009	1.071	1.129	1.150
Discounting Factor	0.96	0.91	0.87	0.84	0.80	0.76	0.73	0.70	0.67	0.64
PV EVA	589	610	659	682	707	724	737	748	753	733
Invested Capital Primo	6.020									
PV of EVA in forecast horizon	6.429									
PV of EVA in terminal period	25.623									
PV of EVA in terminal period (Multiple Implied)	18.527									
Estimated EV	**38.072**									
Estimated EV [Multiple Implied Terminal Value]	**24.956**									
NIBD	4.745									
Estimated Market Value of Equity	**33.327**									
Estimated Market Value of Equity [Multiple Implied Terminal value]	**20.211**									

A.30.   Multiple Valuation

Kellogg's	2010	2011	2012	2013	2014	2015	
EV/EBITDA	9.20	12.43	13.32	8.38	19.92	20.93	
EV/Sales	1.79	1.69	1.89	1.91	2.09	2.51	
EV/Invested Capital	2.81	2.81	2.44	2.5	2.88	3.21	2.81

General Mills	2010	2011	2012	2013	2014	2015	H1.2016
EV/EBITDA	8.45	8.86	9.98	11.10	11.80	16.35	
EV/Sales	1.77	1.93	1.86	2.15	2.33	2.47	
EV/Invested Capital	2.31	2.23	2.11	2.49	2.63	2.90	3.14

ConAgra Foods	2010	2011	2012	2013	2014	2015	H1.2016
EV/EBITDA	11.43	9.61	14.46	16.40	23.20	72.53	
EV/Sales	1.32	1.38	1.31	2.09	1.93	1.96	
EV/Invested Capital	2.12	2.44	2.36	1.91	2.16	2.52	2.92

The J.M. Smucker Co.	2010	2011	2012	2013	2014	2015	Q1 – Q3 H1.2016
EV/EBITDA	7.61	8.75	9.95	10.67	10.05	17.29	
EV/Sales	1.61	1.86	1.85	2.10	2.10	3.16	
EV/Invested Capital	1.15	1.39	1.41	1.74	1.62	1.34	1.64

Campbell Soup Co.	2010	2011	2012	2013	2014	2015	H1.2016
EV/EBITDA	8.89	8.49	9.70	12.16	11.93	13.74	
EV/Sales	1.85	1.76	1.91	2.25	2.16	2.38	
EV/Invested Capital	3.30	2.80	3.10	2.98	3.00	3.30	3.30

Descriptive Statistics on LBO Leverage and Deal Pricing

	EV				EV / EBITDA			
	N	Mean	Median	Std Dev	N	Mean	Median	Std Dev
All LBO transactions	1.023	1.514	677	3.582	1.009	8.2	7.6	3.3
Divisional	295	1.290	702	1.812	290	7.4	6.8	2.8
Private company	117	603	432	503	114	7.8	7.4	2.6
Public-to-private	**365**	**2.343**	**829**	**5.543**	**362**	**8.8**	**8.0**	**3.8**
Secondary	240	974	599	1.446	237	8.5	7.9	3.2
Privatization/Bankruptcy	6	1.383	1.802	935	6	8.8	8.6	3.5
North American	**630**	**1.654**	**639**	**4.226**	**625**	**8.5**	**7.7**	**3.3**
Western Europe	387	1.282	721	2.186	378	7.8	7.4	3.2
Rest of World	6	1.660	1.877	1.011	6	8.5	8.9	2.7

	D / EBITDA				D / EV			
	N	Mean	Median	Std Dev	N	Mean	Median	Std Dev
All LBO transactions	**1.142**	**5.6**	**5.2**	**2.4**	**1.002**	**0.69**	**0.70**	**1.4**
Divisional	315	5.0	4.7	1.8	289	0.69	0.70	0.13
Private company	163	4.9	4.7	1.6	115	0.64	0.65	0.14
Public-to-private	**366**	**6.5**	**5.8**	**3.0**	**354**	**0.73**	**0.73**	**0.15**
Secondary	289	5.6	5.3	2.1	238	0.66	0.68	0.11
Privatization/Bankruptcy	9	4.0	3.7	1.4	6	0.51	0.60	0.25
North American	**689**	**5.8**	**5.3**	**2.6**	**619**	**0.70**	**0.70**	**0.15**
Western Europe	443	5.3	4.9	2.1	377	0.68	0.68	0.12
Rest of World	**10**	**5.7**	**5.5**	**1.7**	**6**	**0.70**	**0.68**	**0.12**

Source: (Axelson, Jenkinson, & Strømberg, 2013)

A.32.   Research - LBO – Capital Structure

The following section shows the mean values of debt capital structure composition in LBOs. The values represent LBOs performed from 1980 through 2008.

The sample consists of 1.157 buyouts of which 694 are of North American firms while the rest mainly are derived from Western Europe.

Historical Capital Structure of LBOs

	Exists (% of LBOs)	% of Total Debt (Excl. contingent debt)	Basis Points over LIBOR	Pay down within 5 Years
Senior bank debt				
Term loan A	*62.2%*	*23.4%*	*276*	*68.0%*
Term loan B. C. …	*89.3%*	*46.2%*	*306*	*5.5%*
Bridge loans	*9.4%*	*2.9%*	*271*	*71.1%*
Subordinated debt				
Second lien	*10.6%*	*2.5%*	*543*	*5.3%*
Mezzanine	*41.0%*	*9.9%*	*519*	*1.3%*
Bonds				
Senior	*7.1%*	*2.3%*	*485*	*4.7%*
Junior	*21.9%*	*9.3%*	*561*	*0.5%*
Other debt				
Vendor loans	*2.9%*	*0.5%*	*648*	*-*
Assumed debt	*2.6%*	*1.0%*	*-*	*-*
Sponsor loans	*1.0%*	*0.3%*	*761*	*-*
Off balance sheet	*1.8%*	*0.6%*	*-*	*-*
Total debt		**100%**	**490**	**22.8%**
Contingent debt				
Revolver	*92.1%*	*14.2%*		
Other facilities	*25.2%*	*3.7%*		
Preferred equity	*2.6%*	*0.5%*	*627*	*-*

Source: (Axelson, Jenkinson, & Strømberg, 2013)

195

Appendices

A.33. **Base & Bull Case LBO Capital Structure**

Sources of Funds					Use of Funds		
	Amount	% of Total Sources	Cumulative EBITDA Multiple	Pricing		Amount	% of Total
Revolving Credit Facility Size	2.000	0%	0,0x	LIBOR + 2,5%	Equity Purchase Price	22.908	83%
Term Loan A	-	0%	0,0x	LIBOR + 2,5%	Repay Existing Bank Debt	4.195	15%
Term Loan B	13.000	47%	8,2x	LIBOR + 3%	Tender / Call Premiums	-	0%
Term Loan C	-	0%	8,2x	LIBOR + 0%	Financing Fees	397	1.4%
2nd Lien	-	0%	8,2x		Other Fees and Expenses	-	0%
Senior Notes	3.900	14%	10,7x	8,25%			
Senior Subordinated Notes	-	0%	10,7x				
Senior Bridge Facility	-	0%	10,7x				
Equity Contribution	8.100	29%	15,8x				
Rollover Equity	2.500	9%	17,3x				
Cash on Hand	-	0%	17,3x				
Total Sources	**27.500**	**100%**	**17,3x**		**Total Uses**	**27.500**	**100%**

Sources compared to other deals	Proposed Campbell	Heinz Deal	Market Average
Term Loan A	0%	10%	16,4%
Term Loan B	47%	22%	32,3%
Term Loan C	0%		
2nd Lien	0%	11%	1,8%
Senior Notes	14%		1,6%
Senior Subordinated Notes	0%		6,5%
Senior Bridge Facility	0%		2,0%
Other (incl. Mezzanine)			8,6%
Equity Contribution	29%	29%	30,0%
Rollover Equity	9%		
Preferred Equity	0%	27%	0,4%
Cash on Hand	0%		
Total Sources	100%	100%	100%
EV/EBITDA	17,1x	14,5x	8,8x
D/EBITDA	10,7x	10,4x	6,5x
EBITDA/Interest Coverage [12m into acquisition]	2,1x	1,3x	3,0x

Appendices

Sources of Funds					Use of Funds		
	Amount	% of Total Sources	Cumulative EBITDA Multiple	Pricing		Amount	% of Total
Revolving Credit Facility Size	2.000	0%	0,0x	LIBOR + 2,5%	Equity Purchase Price	22.908	83%
Term Loan A	-	0%	0,0x	LIBOR + 2,5%	Repay Existing Bank Debt	4.195	15%
Term Loan B	13.000	47%	8,7x	LIBOR + 3%	Tender / Call Premiums	-	0%
Term Loan C	-	0%	8,7x	LIBOR + 0%	Financing Fees	397	1.4%
2nd Lien	-	0%	8,7x		Other Fees and Expenses	-	0%
Senior Notes	3.900	14%	11,3x	8,25%			
Senior Subordinated Notes	-	0%	11,3x				
Senior Bridge Facility	-	0%	11,3x				
Equity Contribution	8.100	29%	16,8x				
Rollover Equity	2.500	9%	18,5x				
Cash on Hand	-	0%	18,5x				
Total Sources	**27.500**	**100%**	**18,5x**		**Total Uses**	**27.500**	**100%**

Sources compared to other deals	Proposed Campbell	Heinz Deal	Market Average
Term Loan A	0%	10%	16,4%
Term Loan B	47%	22%	32,3%
Term Loan C	0%		
2nd Lien	0%	11%	1,8%
Senior Notes	14%		1,6%
Senior Subordinated Notes	0%		6,5%
Senior Bridge Facility	0%		2,0%
Other (incl. Mezzanine)			8,6%
Equity Contribution	29%	29%	30,0%
Rollover Equity	9%		
Preferred Equity	0%	27%	0,4%
Cash on Hand	0%		
Total Sources	100%	100%	100%
EV/EBITDA	18,2x	14,5x	8,8x
D/EBITDA	11,3x	10,4x	6,5x
EBITDA/Interest Coverage [12m into acquisition]	1,7x	1,3x	3,0x

Base Case Scenario										
	2016E	**2017E**	**2018E**	**2019E**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**
Total Net Sales	**8.296**	**8.567**	**8.830**	**9.135**	**9.457**	**9.731**	**9.965**	**10.174**	**10.327**	**10.482**
Cost of Product Sold (COGS) *D&A deducted	5.102	5.269	5.430	5.618	5.391	5.547	5.680	5.799	5.886	5.975
Gross Profit	**3.194**	**3.298**	**3.399**	**3.517**	**4.067**	**4.184**	**4.285**	**4.375**	**4.441**	**4.507**
Total Operating Expenses	1608	1318	1182	1142	1608	1654	1694	1730	1756	1782
EBITDA	**1585**	**1980**	**2217**	**2375**	**2459**	**2530**	**2591**	**2645**	**2685**	**2725**
EBITDA Margin	*19,1 %*	*23,1 %*	*25,1 %*	*26,0 %*	*26,0 %*	*26,0 %*	*26,0 %*	*26,0 %*	*26,0 %*	*26,0 %*
Depreciation & Amortization	323	336	347	360	369	377	385	392	398	409
Earnings before Interest and Taxes (EBIT)	**1262**	**1644**	**1870**	**2015**	**2089**	**2153**	**2206**	**2253**	**2287**	**2317**
Tax on Operating Activities	379	493	561	604	627	646	662	676	686	695
NOPAT	**884**	**1151**	**1309**	**1410**	**1463**	**1507**	**1544**	**1577**	**1601**	**1622**
Interest Expense	**731**	**956**	**917**	**868**	**805**	**731**	**650**	**576**	**513**	**446**
Interest Expense	729	946	907	858	795	721	640	566	503	436
Commitment Fee on Unused Revolver	2	10	10	10	10	10	10	10	10	10
Amortization of deferred financing fees	11	47	47	47	47	47	46	35	12	7
Interest Income										
Net Financial Expenses before Tax	**742**	**1.003**	**964**	**914**	**852**	**778**	**695**	**612**	**525**	**453**
Tax Shield	223	301	289	274	256	233	209	184	158	136
Earnings before cumulative effect of accounting change	**364**	**449**	**634**	**770**	**866**	**962**	**1058**	**1149**	**1233**	**1305**
Net Earnings	**364**	**449**	**634**	**770**	**866**	**962**	**1058**	**1149**	**1233**	**1305**

Bear Case Scenario

	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Total Net Sales	8.274	8.518	8.753	9.024	9.311	9.581	9.811	10.017	10.167	10.319
Cost of Product Sold (COGS) *D&A deducted	5.089	5.239	5.383	5.550	5.726	5.784	5.813	5.822	5.998	6.088
Gross Profit	3.186	3.279	3.370	3.474	3.585	3.796	3.998	4.194	4.168	4.231
Total Operating Expenses	1696	1661	1619	1670	1722	1880	2036	2191	2135	2167
EBITDA	1489	1618	1751	1805	1862	1916	1962	2003	2033	2064
EBITDA Margin	*18,0 %*	*19,0 %*	*20,0 %*	*20,0 %*	*20,0 %*	*20,0 %*	*20,0 %*	*20,0 %*	*20,0 %*	*20,0 %*
Depreciation & Amortization	323	336	347	360	369	377	385	392	398	409
Earnings before Interest and Taxes (EBIT)	1166	1282	1403	1444	1493	1539	1577	1611	1635	1655
Tax on Operating Activities	350	385	421	433	448	462	473	483	491	497
NOPAT	816	898	982	1011	1045	1077	1104	1128	1145	1159
Interest Expense	731	964	946	922	894	862	825	783	738	688
Interest Expense	729	954	936	912	884	852	815	773	728	678
Commitment Fee on Unused Revolver	2	10	10	10	10	10	10	10	10	10
Amortization of deferred financing fees	11	47	47	47	47	47	46	35	12	7
Interest Income										
Net Financial Expenses before Tax	741	1.011	993	969	941	908	870	819	750	695
Tax Shield	222	303	298	291	282	273	261	246	225	208
Earnings before cumulative effect of accounting change	297	190	287	333	386	441	495	555	620	672
Net Earnings	297	190	287	333	386	441	495	555	620	672

Bull Case Scenario										
	2016E	**2017E**	**2018E**	**2019E**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**
Total Net Sales	**8.317**	**8.617**	**8.907**	**9.246**	**9.606**	**9.884**	**10.121**	**10.334**	**10.489**	**10.646**
Cost of Product Sold (COGS) *D&A deducted	5.115	5.299	5.446	5.620	5.804	5.938	6.044	6.134	6.188	6.281
Gross Profit	**3.202**	**3.317**	**3.461**	**3.626**	**3.801**	**3.947**	**4.077**	**4.200**	**4.300**	**4.365**
Total Operating Expenses	1613	1240	1145	1222	1304	1377	1446	1513	1573	1597
EBITDA	**1590**	**2078**	**2316**	**2404**	**2497**	**2570**	**2632**	**2687**	**2727**	**2768**
EBITDA Margin	*19,1 %*	*24,1 %*	*26,0 %*	*26,0 %*	*26,0 %*	*26,0 %*	*26,0 %*	*26,0 %*	*26,0 %*	*26,0 %*
Depreciation & Amortization	323	336	347	360	369	377	385	392	398	409
Earnings before Interest and Taxes (EBIT)	**1266**	**1742**	**1969**	**2043**	**2128**	**2192**	**2247**	**2295**	**2329**	**2360**
Tax on Operating Activities	380	523	591	613	638	658	674	688	699	708
NOPAT	**886**	**1219**	**1378**	**1430**	**1490**	**1535**	**1573**	**1606**	**1630**	**1652**
Interest Expense	**731**	**951**	**902**	**840**	**770**	**692**	**614**	**546**	**480**	**410**
Interest Expense	729	941	892	830	760	682	604	536	470	400
Commitment Fee on Unused Revolver	2	10	10	10	10	10	10	10	10	10
Amortization of deferred financing fees	11	47	47	47	47	47	46	35	12	7
Interest Income										
Net Financial Expenses before Tax	**742**	**998**	**948**	**887**	**817**	**739**	**660**	**581**	**492**	**417**
Tax Shield	223	299	285	266	245	222	198	174	148	125
Earnings before cumulative effect of accounting change	**367**	**521**	**714**	**810**	**918**	**1018**	**1111**	**1199**	**1286**	**1360**
Net Earnings	**367**	**521**	**714**	**810**	**918**	**1018**	**1111**	**1199**	**1286**	**1360**

A.36.   LBO – Forecasting – Balance Sheet Statement

Base Case Scenario

	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Intangible & Tangible Assets	27.696	27.749	27.894	28.055	28.040	28.021	27.998	27.984	27.987	27.996
Net Working Capital	207	257	353	457	473	487	498	509	516	524
Invested Capital, Net Operating Assets	27.489	27.492	27.541	27.598	27.567	27.534	27.500	27.475	27.471	27.472
Total Equity	11.576	12.025	12.659	13.429	14.296	15.258	16.316	17.465	18.698	20.002
Term Loan B	12.013	11.883	11.753	11.623	11.493	11.363	11.185	10.011	8.773	7.470
Senior Notes	3.900	3.584	3.129	2.546	1.779	913				
Net Interest Bearing Debt	15.913	15.467	14.882	14.169	13.272	12.276	11.185	10.011	8.773	7.470
Invested Capital, Net Operating Liabilities	27.489	27.492	27.541	27.598	27.567	27.534	27.500	27.475	27.471	27.472

Bear Case Scenario

	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Intangible & Tangible Assets	28.068	28.056	28.042	28.033	28.026	28.017	28.004	27.997	28.006	28.021
Net Working Capital	579	596	613	632	652	671	687	701	712	-722
Invested Capital, Net Operating Assets	27.489	27.459	27.429	27.401	27.375	27.347	27.317	27.296	27.294	27.298
Total Equity	11.592	11.782	12.070	12.402	12.789	13.230	13.725	14.280	14.900	15.572
Term Loan B	11.997	11.867	11.737	11.607	11.477	11.347	11.217	11.087	10.957	10.827
Senior Notes	3.900	3.810	3.623	3.392	3.109	2.770	2.376	1.930	1.438	900
Net Interest Bearing Debt	15.897	15.677	15.359	14.999	14.586	14.117	13.592	13.016	12.395	11.727
Invested Capital, Net Operating Liabilities	27.489	27.459	27.429	27.401	27.375	27.347	27.317	27.296	27.294	27.298

Appendices

Bull Case Scenario										
	2016E	**2017E**	**2018E**	**2019E**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**
Intangible & Tangible Assets	27.905	27.888	27.870	27.858	27.847	27.828	27.806	27.792	27.795	27.804
Net Working Capital	416	431	445	462	480	494	506	517	524	532
Invested Capital, Net Operating Assets	**27.489**	**27.457**	**27.425**	**27.395**	**27.366**	**27.334**	**27.300**	**27.275**	**27.270**	**27.272**
Total Equity	**11.582**	**12.102**	**12.816**	**13.626**	**14.544**	**15.561**	**16.672**	**17.871**	**19.157**	**20.517**
Term Loan B	12.007	11.877	11.747	11.617	11.487	11.357	10.628	9.404	8.113	6.755
Senior Notes	3.900	3.478	2.861	2.152	1.335	415	-	-	-	-
Net Interest Bearing Debt	15.907	15.355	14.609	13.769	12.823	11.772	10.628	9.404	8.113	6.755
Invested Capital, Net Operating Liabilities	**27.489**	**27.457**	**27.425**	**27.395**	**27.366**	**27.334**	**27.300**	**27.275**	**27.270**	**27.272**

A.37. LBO – Base Case Scenario Credit Rating Indicators

Base Case Scenario	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
EBITDA Coverage Ratio	2.17	2.07	2.42	2.74	3.05	3.46	3.99	4.59	5.23	6.11
EBIT Coverage Ratio	1.73	1.72	2.04	2.32	2.59	2.94	3.40	3.91	4.46	5.19
Funds from Operation / total debt	0.04	0.05	0.06	0.07	0.08	0.10	0.11	0.13	0.15	0.18
Free operating cash flow / total liabilities	0.07	0.08	0.10	0.11	0.12	0.13	0.14	0.16	0.18	0.21
ROIC (%)	21.7%	6.0%	6.8%	7.3%	7.6%	7.8%	8.0%	8.2%	8.3%	8.4%
Gross Margin (%)	39%	39%	39%	39%	43%	43%	43%	43%	43%	43%
Long-term debt/capital	0.59	0.46	0.39	0.35	0.32	0.28	0.25	0.22	0.19	0.16
Debt-to-EBITDA	11.3	8.9	7.7	6.9	6.3	5.8	5.2	4.7	4.1	3.6

Rating	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
EBITDA Coverage Ratio	BB	B	BB	BB	BB	BB	BBB	BBB	BBB	A
EBIT Coverage Ratio	CCC	CCC	B	B	B	B	B	BB	BB	BB
Funds from Operation / total debt	CCC	CCC	CCC	CCC	B	B	B	B	B	B
Free operating cash flow / total liabilities	BB	BB	BBB	BBB	BBB	BBB	BBB	A	A	A
ROIC	AA	CCC	B	B	B	B	B	B	B	B
Gross Margin	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA
Long-term debt/capital	B	BB	BBB	BBB	A	A	AA	AA	AA	AA
Debt-to-EBITDA	CCC-	CCC-	CCC-	CCC-	CCC-	CCC	CCC	B	B	B

Average Rating	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Average Rating	**B**	**B**	**B**	**B**	**BB**	**BB**	**BB**	**BB**	**BB**	**BBB**

Appendices

		2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Entry EBITDA Multiple	17.1x									
Initial Equity Investment										
EBITDA		**1.980**	**2.217**	**2.375**	**2.459**	**2.530**	**2.591**	**2.645**	**2.685**	**2.725**
Exit EBITDA Multiple		17.1x	17.1x	17.1x	17.1x	17.1x	17.1x	17.1x	17.1x	17.1x
Enterprise Value at Exit		33.859	37.916	40.612	42.046	43.266	44.304	45.234	45.913	46.601
Less Net Debt										
Plus: Term Loan B		11.883	11.753	11.623	11.493	11.363	11.185	10.011	8.773	7.470
Plus: Senior Notes		3.584	3.129	2.546	1.779	913				
Net Debt		15.467	14.882	14.169	13.272	12.276	11.185	10.011	8.773	7.470
Equity Value		18.392	23.034	26.443	28.774	30.989	33.119	35.223	37.140	39.132
Cash Return		1.7x	2.2x	2.5x	2.7x	2.9x	3.1x	3.3x	3.5x	3.7x
Initial Equity Investment		10.600	10.600	10.600	10.600	10.600	10.600	10.600	10.600	10.600
		18.392	23.034	26.443	28.774	30.989	33.119	35.223	37.140	39.132
Internal Rate of Return [IRR]		56.83%	41.68%	32.74%	26.63%	22.77%	20.06%	18.06%	16.44%	15.19%

Monte Carlo Simulation of five-year exit IRR

Bins	Average	Count	Cumulative Probability	Probability	Theoretical Frequency			
-15,0%	-15,52%	1	0,07%	0,07%	7	**Max**		38,83%
-12,5%	-13,0%	4	0,16%	0,09%	9	**Min**		-15,52%
-10,0%	-10,8%	10	0,33%	0,17%	17	**Range**		54,4%
-7,5%	-8,6%	41	0,66%	0,33%	33	**Average**		18,33%
-5,0%	-6,2%	88	1,27%	0,60%	60	**Standard Deviation**		10,43%
-2,5%	-3,6%	168	2,29%	1,03%	103	**Lower Bound**		18,12%
0,0%	-1,3%	219	3,95%	1,65%	165	**Upper Bound**		18,53%
2,5%	1,3%	360	6,46%	2,51%	251	**Count**		9999
5,0%	3,7%	427	10,07%	3,61%	361			
7,5%	6,3%	472	14,97%	4,90%	490			
10,0%	8,8%	566	21,24%	6,27%	627			
12,5%	11,3%	588	28,83%	7,59%	759			
15,0%	13,8%	595	37,49%	8,67%	867			
17,5%	16,3%	741	46,85%	9,35%	935			
20,0%	18,8%	771	56,38%	9,53%	953			
22,5%	21,3%	806	65,55%	9,17%	917			
25,0%	23,8%	967	73,89%	8,34%	834			
27,5%	26,2%	971	81,04%	7,16%	716			
30,0%	28,7%	902	86,85%	5,80%	580			
32,5%	31,1%	713	91,29%	4,44%	444			
35,0%	33,6%	426	94,50%	3,21%	321			
37,5%	36,0%	141	96,70%	2,19%	219			
38,0%	37,7%	14	97,04%	0,34%	34			
38,5%	38,3%	4	97,34%	0,31%	31			
More	38,7%	4	100,00%	2,66%	266			

Monte Carlo Simulation of five-year exit IRR
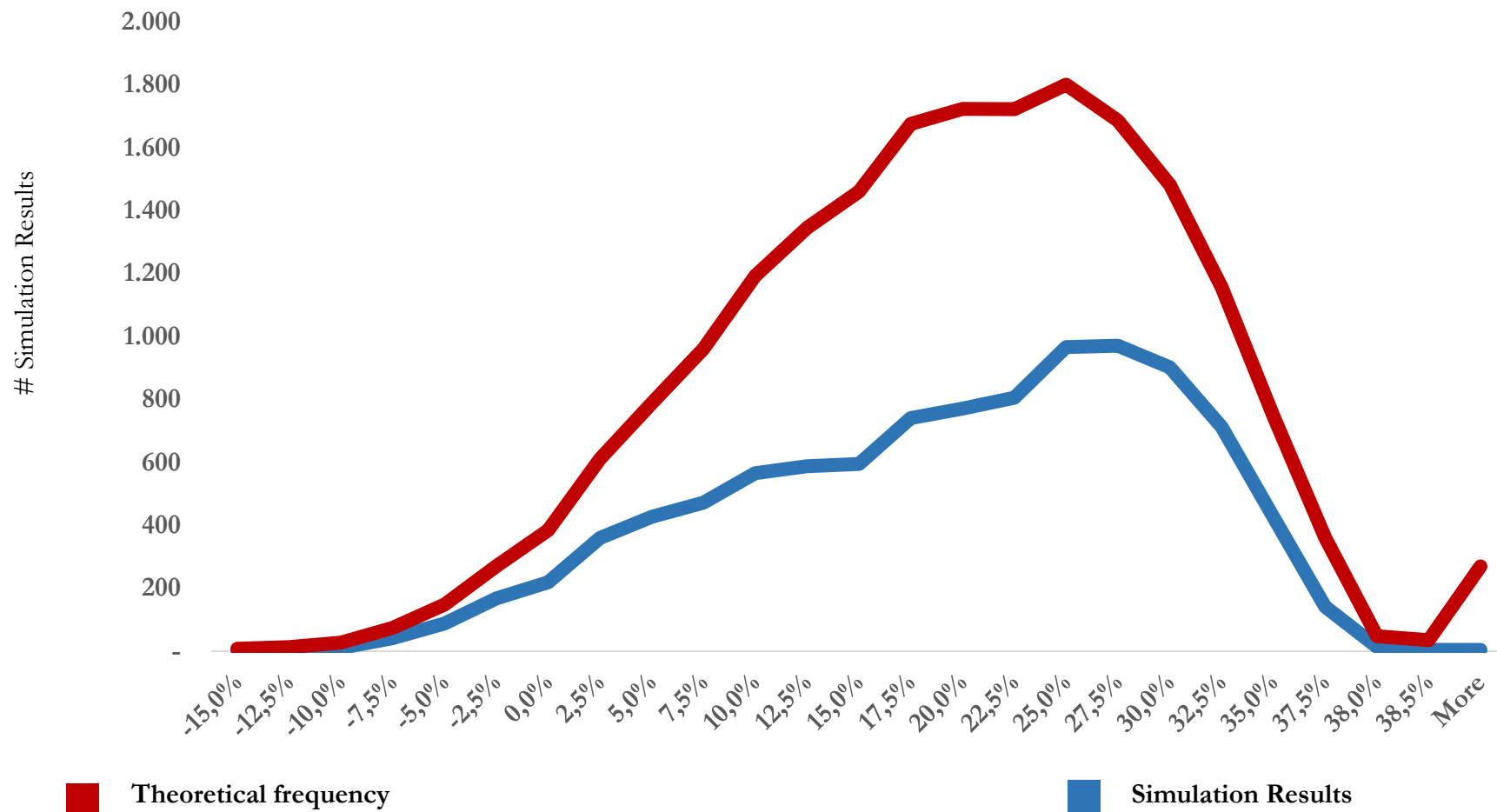
A.40.   Regression of Simulation Results

The Simulation results for five-year IRR, exit multiple, EBITDA margin and equity contribution are used to see which variables affect the potential return the most. This is done through regressing the Log of each variable on the projected five-year IRR.

	EV/EBITDA	E/EV	EBITDA %
Standard error	0.032665	0.031644	0.009484
difference	0.032665	0.001021	0.02216
% impact on standard error	58.5%	1.8%	39.7%

The results show that what affects the IRR in the financial model of the Campbell LBO is the exit multiple and then the EBITDA. The results appear reasonable. The statistical approach can be discussed, the application is meant to assess how the various factors in the financial model affect the results, one could include more variables and one would hence get different results but the three variables are by academia pointed as the key characteristics in determining IRR and have therefore been chosen.

See next page for the three regressions and their results

IRR and Exit Multiple (E/EBITDA)

Regression Statistics	
Multipel R	0,949715
R-squared	0,901959
Adj. R-squared	0,90195
Standard error	0,032665
Observations	9998

ANAVA

	fg	SK	MK	F	Significance F
Regression	1	98,12238	98,12238	91961,79	0
Residual	9996	10,66564	0,001067		
Total	9997	108,788			

	Coefficients	Standard error	t-stat	P-value	Lower 95%	Upper 95%	Lower 95%	Upper 95%
Interception	-0,8896	0,003553	-250,389	0	-0,89656	-0,88263	-0,89656	-0,88263
2,779985	0,379078	0,00125	303,252	0	0,376628	0,381528	0,376628	0,381528

IRR vs. Exit Multiple (E/EBITDA) & Equity contribution (E/EV)

Regression Statistics	
Multipel R	0,952891
R-squared	0,908
Adj. R-squared	0,907982
Standard error	0,031644
Observations	9998

ANAVA

	fg	SK	MK	F	Significance F
Regression	2	98,77956	49,38978	49323,36	0
Residual	9995	10,00846	0,001001		
Total	9997	108,788			

		Coefficients	Standard error	t-stat	P-value	Lower 95%	Upper 95%	Lower 95%	Upper 95%
Interception		-0,99107	0,005247	-188,87	0	-1,00135	-0,98078	-1,00135	-0,98078
	2,779985	0,378662	0,001211	312,6627	0	0,376288	0,381036	0,376288	0,381036
	1,176597	0,097537	0,003807	25,61827	3E-140	0,090074	0,105	0,090074	0,105

IRR vs. Exit Multiple (E/EBITDA) & Equity contribution (E/EV) & EBITDA margin at exit

Regression Statistics	
Multipel R	0,99586
R-squared	0,991737
Adj. R-squared	0,991735
Standard error	0,009484
Observations	9998

ANAVA

	fg	SK	MK	F	Significance F
Regression	3	107,8891326	35,96304	399842,8	0
Residual	9994	0,89888989	8,99E-05		
Total	9997	108,7880225			

		Coefficients	Standard error	t-stat	P-value	Lower 95%	Upper 95%	Lower 95%	Upper 95%
Interception		-0,40693	0,002417055	-168,359	0	-0,41167	-0,4022	-0,41167	-0,4022
	2,779985347	0,378905	0,000362968	1043,91	0	0,378194	0,379617	0,378194	0,379617
	1,176596506	0,097103	0,00114107	85,09786	0	0,094866	0,099339	0,094866	0,099339
	1,381311649	-0,39684	0,001246961	-318,248	0	-0,39929	-0,3944	-0,39929	-0,3944