

SMART YIELD

INCOME FUND

Finding Efficient Frontiers

INVEST/STAY CONNECTED

KraftHeinz

INITIAL REPORT August 27, 2023

LAST UPDATED August 27, 2023

THE KRAFT HEINZ COMPANY

Common shares \$33.85 Buy: Price Target \$45.00

Kraft Heinz (KHC) is a well-known company that manufactures and markets food and beverage products. [Company brands](#) include Kraft Mac & Cheese, Heinz Ketchup, A1 Sauce, Velveeta, lunchables, Philadelphia Cream Cheese, Tator Tots and many others. KHC divides its business segments into North America (77%) and International (23%). These segments include retail (87%) and food service (13%). In 2023 the international food service business showed the strongest growth with North American retail in last place. Currently, the accomplishment of financial goals, such as deleveraging, is providing management with resources to grow the business.

KHC has been undergoing somewhat of a transformation over the last 4 years. Total debt has been reduced from \$29 billion to \$20 billion through cash flow and divestitures and the company is also realigning its product portfolio. Cost cutting and efficiency initiatives appear to be adding traction and Q2 “adjusted” EBITDA and EPS showed increases of 7.3% and 12.9% respectively. As of 2nd Q, Kraft Heinz has increased marketing spend 23% year over year and R&D 10% since Q1. This is leading to new possibly more relevant product launches such as canned and bottled culinary tomatoes lines, and plant based dairy products, both of which seem promising.

Initiatives and strategies appear to be working with CEO Miguel Patricio commenting on the recent conference call: “We have seen plans take hold, and they have led to improving results each month within the quarter, building momentum into the second half of the year..and.. are expected to drive improving volume trends in the second half of 2023 and into 2024.”

Our buy and price target of \$45 are based on the continued improvements, debt reductions and 15 X 2024 earnings estimates of \$3.06 per share. We believe that there is room for growth in many supermarket categories and that KHC is ready to address these opportunities by directing cash flows from debt reduction to product marketing and R&D spend.

2023 PROJECTIONS MM

Revenue	27,809
Gross Profit	8,899
Operating Income	5,145
EBITDA	6,226
Capex	921
Revenue Growth	5%
EPS	2.90
P.E Ratio	11.67
Cash Flow	4,663
Cash Flow After Capex	3,747
Common Dividend	1,976
Post Div Retained Cash Flow	1,771

Valuations as of Jul 1, 23

Equity Market Cap	41,805
Net Total Debt	19,123
Enterprise Value	60,928
EV/EBITDA	9.8
Debt/EBITDA	3.2
Cash Flow Yield Vs. Equity	11.2%

[Recent KHC Earnings](#)
[Recent KHC Presentation](#)



Disclosures

Previous reports are available upon request. Smart Yield Fund targets a mix of different security classes that contain the risk of loss. Investors should carefully consider the Fund's investment objectives and risk factors before investing. Investing involves risk, including possible loss of principal. Investors should consider the loss of principle and targeted returns are not guaranteed. Individual investors in Smart Yield are generally required to be accredited investors. Smart Yield is a fund operated through individual accounts creating the composite. Smart Yield Fund is a new product with an inception date of September 30, 2020, and as such does not have historical data. Asset Mix Projections on page 2 and 6, Smart Yield Portfolio Metrics on page 5 are estimated or targets of the fund. Asset class mix and targets may change based on the direction of the managers. Portfolio allocation projected annual return and beta assumption for each asset class on pages 7-10 are estimated. Beta for the fund and each asset class is estimated versus the S&P 500. The average beta for the entire fund is projected to be .32. Beta is a measure of the fund's volatility in relation to S&P 500 Index. This index has a beta of 1.0. The fund targets a total gross return before fees and expenses of 9.24%. The fund projects a blended return based on income securities and capital gains. Smart Yield attempts to continuously improve the value of investment portfolios by investing in corporate bonds, convertible bonds, other types of bonds (investment grade and sub-investment grade, [which may also have limited liquidity]), dividend paying equities, non-dividend paying equities, ETFs, including leveraged ETFs, and other securities. Fixed income risks include interest-rate and credit risk. Typically, when interest rates rise, there is a corresponding decline in bond values. Credit risk refers to the possibility that the bond issuer will not be able to make principal and interest payments. All securities types mentioned in this brochure have the risk of loss. Long term strategies purchase securities which are underpriced according to our appraisal methodologies. Broxton uses regression analysis to obtain an average appraisal value for an individual company and places a priority on the securities of companies with improving financial performance and or additional catalysts that provide for increases in earnings and valuation. We use financial modeling, technical analysis, proprietary and third-party research. Smart Yield does not have any capitalization (market size), sector or industry allocation mandates. Asset class allocation percentages may be changed without notice. Broxton deploys technical analysis and momentum as indicators of movement for shorter term strategies, that may not involve deep fundamental analysis. Shorting (selling and then buying) of securities can be used for hedging and as a long term or short-term strategy. We exit positions in accordance with our discipline, this includes when valuation targets are clearly exceeded, or financial performance falls below our projections. Since Smart Yield returns will be calculated using a composite of accounts, the average account will not match the composite return and the return could be higher or lower. Broxton offers Smart Yield for other investment managers. Any commentary is solely the opinion of the Broxton Capital Advisors. It refers to securities we hold in our portfolio and sometimes ones we are considering but does not represent a complete list of positions held at Broxton Capital Advisors. A complete list covering the last twelve months will be furnished upon request. Price targets are mentioned for information purposes only. Nothing contained herein constitutes a recommendation to purchase or sell securities at any designated price or time. Targeted performance does not guarantee future results. Additional disclosures are included on broxtoncapital.com including in form ADV. SEC Rule 206(4)-1 disclosure: this report is approved by the CCO of Broxton Capital. Individuals should consider the inherent risks before investing and this report should not be construed as advice tailored to an individual's investment criteria or objectives. Important Disclosure: In the normal course of our communications or reports, we analyze, review and discuss current, past and possible future securities holdings. In the case of any security reviewed by us, it should not be assumed that recommendations made in the future will be profitable or will equal the performance of any profitable security that is reviewed or discussed. On request we provide a list of all investment recommendations made by the firm over the last twelve months. Also, from time-to-time we may also discuss and display, charts, graphs, formulas which are not intended to be used by themselves to determine which securities to buy or sell, or when to buy or sell them. Such charts and graphs offer limited information and should not be used on their own to make investment decisions.

Broxton Capital Advisors 151 Calle San Francisco
San Juan PR, 00901 broxtoncapital.com
310-208-2191

Allen Cooke Portfolio Manager 310-208-2151
Cell 310-279-3338 allen@broxtoncapital.com

BROXTON
CAPITAL ADVISORS
CAPITAL ADVISORS