H. J. Heinz Company - Financial and Strategic Analysis Review

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Company Snapshot

Key Information

H. J. Heinz Company, Key Information	
Web Address	www.heinz.com
Financial year-end	April
Number of Employees	32,200
NYSE	HNZ
Source : GlobalData	

Key Ratios

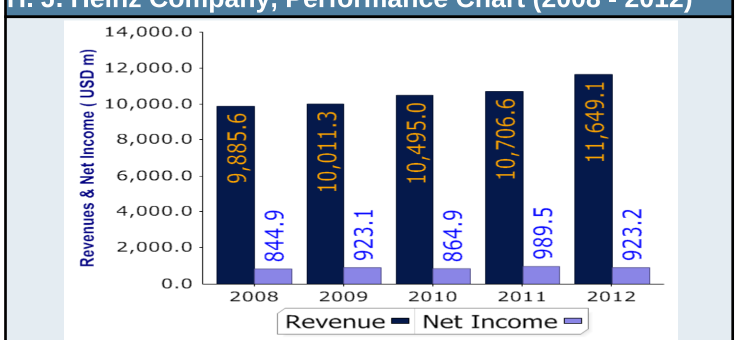
H. J. Heinz Company, Key Ratios	
P/E	20.25
EV/EBITDA	19.11
Return on Equity (%)	33.46
Debt/Equity	182.22
Operating profit margin (%)	12.46
Dividend Yield	0.03
Note: Above ratios are based on share price as of 01-Nov-2012	
Source : GlobalData	

Share Data

H. J. Heinz Company, Share Data	
Price (USD) as on 01-Nov-2012	57.69
EPS (USD)	2.85
Book value per share (USD)	8.61
Shares Outstanding (in million)	323.32
Source : GlobalData	

Performance Chart

H. J. Heinz Company, Performance Chart (2008 - 2012)



Source : GlobalData

Company Overview

H. J. Heinz Company (Heinz) is one of the leading food manufacturing companies in the US. The company, along with its subsidiaries, carries out the manufacture and marketing of a broad range of processed food products. Its product portfolio includes condiments and sauces, ketchup, frozen food, soups, beans and pasta meals, tuna and other seafood products, and infant food. The company's operations span across 200 countries and it enjoys market leading position in more than 50 countries. Heinz operates through five business segments namely, North American Consumer Products, the U.S. Foodservice, Europe, Asia Pacific, and Rest of World.

SWOT Analysis

H. J. Heinz Company, SWOT Analysis	
Strengths	**Weaknesses**
Wide Geographic Presence Strong Brand Portfolio Sufficient Cash from Operations to Support Capex	Substantial Debt Position Higher Operating Costs affecting Margins
Opportunities	**Threats**
Growth Prospects: US Restaurant Industry Positive Outlook for Food Industry Market Potential: Emerging Market	Rising Manpower Cost Intense Competition Changing Consumer Preferences
Source : GlobalData	

Financial Performance

The company reported revenues of (U.S. Dollars) USD 11,649.08 million during the fiscal year ended April 2012, an increase of 8.80% over 2011. The operating profit of the company was USD 1,451.17 million during the fiscal year 2012, a decrease of 11.95% from 2011. The net profit of the company was USD 923.16 million during the fiscal year 2012, a decrease of 6.71% from 2011.

H. J. Heinz Company - SWOT Analysis

SWOT Analysis - Overview

H. J. Heinz Company (Heinz) is engaged in the manufacturing and marketing of food products throughout the world. The company's strong global presence and brand offerings help it enhance its competitive position industry. However, high debt position is an area of concern to the company. Rising sales in the restaurant industry and food markets could ensure potential for future growth. Intense competition and changes in consumer preferences could affect the company's growth.

H. J. Heinz Company - Strengths

Strength - Wide Geographic Presence

Heinz is one of the popular brands in the kitchens throughout the world. The company manufactures thousands of food products in plants on six continents and markets these products in more than 200 countries and territories. The company operates through five segments, which include North American Consumer Products, the US Foodservice, Europe, Asia Pacific, and Rest of World. The company has been able to enter all the emerging markets of the world and gain substantial increase in its revenues. The emerging markets continued to be important growth drivers, with organic sales growth of 16.4% in FY 2012. The company operates 63 owned and 7 leased principal food processing factories, out of which 15 are owned and 4 are leased in North America, 17 owned and 1 leased in Europe, 24 owned in Asia/Pacific and 7 owned and 2 leased in Rest of the World. The geographical diversification helps the company in mitigating various risks associated with a single region.

Strength - Strong Brand Portfolio

The company has a strong brand and product portfolio that helps it to cater to the needs of a diversified customer base. Key products offered by the company include ketchup, frozen food, condiments and sauces, soups, beans and pasta meals, infant nutrition and other food products. All these products are sold under the following brands: Heinz, Classico, Quality Chef Foods, Heinz Beanz, Honig, Wyler's, Salad Cream, ABC, Heinz Bell 'Orto, Bella Rossa, Bagel Bites, Poppers, Delimex, Truesoups, Escalon, Todd's, Arthur's Fresh, Nancy's, Lea & Perrins, Renee's Gourmet, Orlando, Karvan Cevitam, Nurture, Plasmon, Brinta, Roosvicee, Venz, Pudliszki, Mum's Own, Moya Semya, Daddies, Squeezme!, Tom Piper, Wattie's, Bi-Aglut, Complan, and Glucon D, among others. Such a strong product and brand strength supports innovation process, in launching new products and enhances the revenue stream of the company.

Strength - Sufficient Cash from Operations to Support Capex

The company generated strong cash flows from operations over the last five years. Operational cash flows generated through 2008-2012 were $1,188.30m (FY 2008), $1,166.88m (FY 2009), $1,262.2m (FY 2010), $1,583.64m (FY 2011), and $1,493.12m (FY 2012); which was sufficient to meet its capex requirements over these years, $301.59m (FY 2008), $292.12m (FY 2009), $277.64m (FY 2010), $335.65m (FY 2011), and $418.73m (FY 2012). Such strong financial position of the company has helped it in funding its capex and development plans from the internally generated funds.

H. J. Heinz Company - Weaknesses

Weakness - Substantial Debt Position

Heinz has substantial debt, which could limit its ability to obtain funding on acceptable terms due to deterioration in credit and capital markets. As of April 30, 2012, the company's total debt outstanding was $5,026.69m, as compared to that of $4,613.06m in the previous comparative period. The debt to equity ratio of the company was 182.2% in FY 2012, as compared to 148.38% in FY 2011. If it fails to comply with any of the debt service requirements, the debt could become due and payable prior to its scheduled maturity. Such huge debt requires the company to dedicate a significant portion of its cash flow from operations to service interest and principal payments.

Weakness - Higher Operating Costs affecting Margins

Heinz reported higher operating costs in the fiscal year ended April 2012 (FY 2012), which has affected its margins. The company's operating costs (as a percentage of sales) increased from 84.6% during fiscal year ended April 2011 (FY 2011) to 87.5% FY 2012. Due to such increase in costs, the company recorded operating income and net income declined by 11.95% and 6.71% respectively in FY 2012. Thus, it reported lower operating margin and net profit margin. Heinz's operating margin and net profit margin declined to 12.45% and 7.92% in FY 2012, from 15.39% and 9.24% in FY 2011, respectively.

H. J. Heinz Company - Opportunities

Opportunity - Growth Prospects: US Restaurant Industry

The company could leverage the growth prospects emerging in the US restaurant industry, to fuel its revenue growth and profitability in coming years. According to the recent figures released by the National Restaurant Association, the industry sales are expected to industry sales is forecasted to reach $632 billion in the year 2012, as against $ $379m in 2011 (a 3.5% increase over 2011 figures). According to experts, the industry is receiving boost from the recovery in the US economic scenario and is emerged as one of the prime private-sector employers. Although the industry experienced substantial sales growth in the past, however it is facing challenges such as rising food costs, the sluggish economy, and difficulties related to building and maintaining sales volume. Experts believes that, the firms operational in the industry could leverage existing opportunities by better understanding customer needs and patterns, and by providing them with better products and hassle free services. As a key player in the industry, the company could anticipate these changes and formulate strategic to leverage up on the existing market opportunities to drive its future business growth.

Opportunity - Positive Outlook for Food Industry

A significant change in the consumption pattern in the food industry could offer growth opportunities for the company. Due to hectic schedule and changes the work life, modern consumers are more likely to prefer the food available outside rather than cooking food themselves. According to American Restaurant Association, sales in the restaurant industry is projected to be $632 billion in 2012 representing 4% of the U.S. GDP and a typical day restaurant industry sales is expected to be $1.7 billion. Similarly, there is a positive outlook for the bakery products in the food industry. According to industry sources, the global bakery products market is estimated to reach $447 billion by 2017. Contributing factors for growth in food industry include increasing migration from the rural to urban areas and the demand for convenience foods. Such positive outlook for away home food could benefit the companies in hospitality industry and promote growth.

Opportunity - Market Potential: Emerging Market

The company can foster growth across it business by tapping into strong market potential in emerging markets. According to the World Bank, the global GDP was 2.7% in 2010, is expected to grow 3.5% in 2012. The prospects for developing countries are better with a relatively robust recovery, likely to grow 6.2% in 2012. GDP in rich countries was 1.8% in 2010 and is expected to increase 2.5% in 2012. Growth in the East Asia and Pacific region (especially China) as well as South Asia (especially India) has been resilient. China and India, with its huge population base and increasing per capita income, has significant demand potential. Economic growth, combined with high and young population and low per capita consumption, could lead to increased demand in the future.

H. J. Heinz Company - Threats

Threat - Rising Manpower Cost

Rising manpower costs could increase the company's operating costs. With the shortage of talented manpower and increasing government mandated minimum wages, the labor costs have been witnessing an increase. A very significant portion of the workforce, falling under the purview of minimum wages, work in the retail sector. In the US, the government increased the minimum wage rate from $7 per hour in 2009 to $8 an hour in January 2011. The government revised the labor rates for the third year in a row. According to the US Bureau of Labor Statistics, the employer costs for employee compensation was averaged $30.69 per hour in March 2012; and wages and salaries were $21.27 per hour. In 2012, the wage rate of civilian workers increased 1.9%; while that of private industry workers increased 2.1% over that of the previous year. Any such increases in the minimum wages increases the operating costs of retailers and has an adverse affect on their profits.

Threat - Intense Competition

The food markets are highly competitive and evolving. With the entry of more new players in this market, competition is expected to further intensify in the near future, which may result in price reductions. The major competitive factors that affect its business include merchandise selection, quality, value, customer service and convenience. It also competes for product quality, real estate locations and employees. It faces competition from numerous retail store formats including mass merchandisers, traditional department stores, direct merchandisers, general merchandise stores, internet retailers, mail order retailers and off-price and discount store retailers. The company competes with Del Monte Foods Company, ConAgra Foods, Inc., Kraft Foods Inc., Nestle S.A., and Campbell Soup Company. If the company is not able to maintain consumer loyalty, such intense competition could reduce the sales volume of the company, thereby hampering its market position.

Threat - Changing Consumer Preferences

The ever changing consumer preferences pose as a challenge to the company’s operations. Heinz’s success depends on its ability to identify the tastes and dietary habits of consumers and to offer products that appeal to their preferences, including their concerns regarding health and wellness, obesity, attributes of the product, and ingredients. Over the past three years, consumers have increased the number of meals they prepare and eat at home while cutting back on the number of times they’ve gone out to eat. Therefore, introduction of new products and product extensions require significant development and marketing investment. The company’s failure in meeting its consumer preferences, or launching new and improved products on a timely basis, may have a significant on its product sales.

NOTE:
* Sector average represents top companies within the specified sector
The above strategic analysis is based on in-house research and reflects the publishers opinion only