

Undervalued or Underwhelming? A Closer Look at Kraft Heinz

A Bad Apple in the Food and Beverage Sector

With recession fears lingering earlier this year, we decided to turn our attention to more defensive, slower-paced investment opportunities. One area that stood out was the Food and Beverage industry, an essential part of the Consumer Defensive sector. This is a mature and well-established space, typically characterized by lower volatility and consistent dividend payouts. Stocks in this industry tend to be less correlated with broader market movements, offering investors a degree of stability, especially during periods of economic uncertainty.

What makes food and beverage companies particularly attractive is their role in meeting basic needs: regardless of the economic environment, demand for their products tends to remain stable. This makes the sector appealing for long-term investors seeking consistency and moderate growth potential over time.

Over the past three years, the S&P Food & Beverage Select Industry Index has delivered an annualized return of -0.16%, reflecting the sector's overall stagnation. However, what caught our attention was the more pronounced decline of The Kraft Heinz Company, whose stock has dropped by approximately 40% from its 2022 peak. This performance stood out given the company's defensive profile, solid history of dividend payments, and low market correlation (with a beta of 0.27).

The severity of the stock's decline, combined with more recent signs of revenue deterioration, prompted us to investigate further. This analysis aims to better understand whether the current valuation is justified or if the market has overreacted. In doing so, we closely examine recent financial results and strategic developments that may influence the company's future trajectory.

Stock Information

Company Name: The Kraft Heinz Company

Ticker Symbol: KHC

Exchange: NASDAQ

Industry/Sector: Food and Beverage

Dividend Yield: 6,08%

Business Overview

The Kraft Heinz Company is a prominent player in the Food and Beverage Industry, being one of the biggest food manufacturers in the US. Its business model consists of the production and distribution of high-quality prepackaged foods and beverages. The company sells to retailers, foodservice providers, industrial customers, as well as directly to consumers. The company operates primarily in North America, which accounts for approximately 75% of its sales, followed by developed international markets (~14%) and emerging markets (~11%). The company's strategic approach is built around three main growth pillars. The first is North America Retail, referred as "ACCELERATE", which represents the company's core business. Through this pillar, Kraft Heinz

seeks to modernize and grow its iconic brands such as Heinz, Kraft, Oscar Mayer, Philadelphia, and Lunchables. The strategy places emphasis on product innovation, marketing reinvestment, and adapting to evolving consumer tastes to sustain organic growth.

The second pillar, “Global Away From Home”, focuses on the foodservice and out-of-home consumption segment, including channels such as restaurants, hospitality, travel, and institutional catering. This area is particularly attractive due to its historical performance, having outpaced retail growth by roughly 50%. KHC’s aim is to expand its global presence in the B2B and foodservice space through strategic partnerships and customized product offerings.

The third pillar targets Emerging Markets, where the company sees substantial growth potential. In these regions, Kraft Heinz focuses on entering high-growth segments and establishing robust distribution networks. The strategy combines both its core business model with the “Away From Home” model, adapting products to local tastes and market dynamics.

The food and beverage industry is highly competitive across all of KHC product offerings. Their principal competitors in these categories are manufacturers and retailers with their own branded and private label products. According to CSIMarket, KHC holds an estimated 11% share of the Food Processing Industry, making it the third-largest player by market share. The company’s iconic and diversified brand portfolio is one of the biggest competitive advantages: these brands in fact benefit from strong consumer loyalty, high shelf presence, and trusted quality, which reduces the need for constant customer acquisition. In addition, KHC benefits from global economies of scale that enhance cost management and supply chain efficiency. However, the same iconic brands that represent KHC’s biggest competitive advantage are the ones that can hinder its growth. A large portion of revenue still comes in fact from mature, legacy brands, which may struggle to stay relevant with younger, health-conscious consumers. Another weakness is the company’s dependence on a limited number of key customers, such as Walmart, which could affect revenue stability if these relationships were disrupted. Additionally, competition from private labels and smaller, innovative food brands presents ongoing pressure.

Financial Performance

Table 1. The Kraft Heinz Company KPIs from the last 5 fiscal years

KPIs	2020 FY	2021 FY	2022 FY	2023 FY	2024 FY	Trend
Revenue Growth	4,83%	-0,54%	1,69%	0,59%	-2,98%	
Net Income Growth	-81,60%	184,27%	133,50%	20,82%	-3,89%	
EPS	2,88	2,93	2,78	2,98	3,06	
EPS Growth	1,05%	1,74%	-5,12%	7,19%	2,68%	
Debt-to-Equity Ratio	0,58	0,46	0,43	0,42	0,42	
Net Margin	1,36%	3,89%	8,92%	10,72%	10,62%	
ROA	0,35%	1,05%	2,57%	3,16%	3,07%	
ROE	0,70%	2,04%	4,82%	5,81%	5,56%	
Dividend Yield (FY)	4,57%	4,54%	3,93%	4,33%	5,27%	

Table 2. Statistics of comparable firms in the Food and Beverage Industry

Name	Revenue Growth	Net Income Growth	EPS Growth	Debt-to-Equity Ratio	Net Margin	ROIC	ROE	Dividend Yield (FY)
The Hershey Company (HSY:NYSE)	0,33%	19,31%	-2,29%	1,16	19,83%	20,67%	50,40%	3,24%
General Mills, Inc.* (GIS:NYSE)	-1,11%	2,40%	-7,52%	1,53	12,92%	10,05%	27,37%	4,50%
Kellanova (K:NYSE)	-2,84%	41,22%	23,27%	1,68	10,53%	13,33%	38,65%	2,80%
Tyson Foods, Inc. (TSN:NYSE)	0,81%	-	131,34%	0,57	1,50%	4,22%	4,38%	3,30%
McCormick & Company, Inc. (MKC:NYSE)	0,92%	15,85%	9,26%	0,86	11,73%	7,78%	15,23%	2,14%
The Kraft Heinz Company (KHC:NASDAQ)	-2,98%	-3,89%	2,68%	0,42	10,62%	6,41%	5,56%	5,27%
Median	-0,39%	15,85%	5,97%	1,01	11,18%	8,92%	21,30%	3,27%
Average	-0,81%	14,98%	26,12%	1,04	11,19%	10,41%	23,60%	3,54%

**Last available data*

It can be seen that both with a horizontal and relative comparison, KHC's performance isn't remarkable nor reassuring. Looking at Table 1, we can highlight a plummet in net income in 2020 compared to 2019, paired, however, with an increase in revenue. The net income change was mainly caused by large impairments (\$3.4 billion), tied primarily to goodwill and brand value reductions. These impairments stemmed from internal reorganizations, lowered growth projections, and the impact of COVID-19. The presence of impairments is crucial in the financial performance of the company and has affected results across all the years analyzed, reflecting a weakening of future revenue growth for some of its established brands (*Oscar Mayer* in particular). Notably, high impairment charges were also recorded in 2024 (\$3.67 billion), though partially offset by positive deferred tax impacts. From 2020 onward, we observe an overall improvement in most KPIs, with the exception of net income - which, after a recovery in 2021 and 2022, declined again in 2024 - and revenues growth, which remained stagnant or negative in recent years. EPS, however, remained relatively stable. Looking at Table 2, KHC appears to underperform across nearly all analyzed dimensions, with the exception of the dividend yield and the debt-to-equity ratio. The consistently high dividend yield, reaching 5.27% in 2024, positions KHC as an attractive option for income-focused investors, but is a byproduct of the decrease of its stock price. Moreover, the steady reduction in debt-to-equity from 0.58 in 2020 to 0.42 in 2024 reflects good financial solidity. Although low leverage might slightly constrain returns on equity, it contributes positively to the company's financial stability. Another relative strength lies in the company's net margins, which improved significantly from 1.36% in 2020 to over 10% in 2023 and 2024. This indicates successful cost management and margin optimization, even in the context of weak top-line growth. However, profitability metrics such as ROA and ROE, despite improving, remain modest in absolute terms and slightly declined again in 2024, suggesting that KHC may have reached a plateau in operational efficiency.

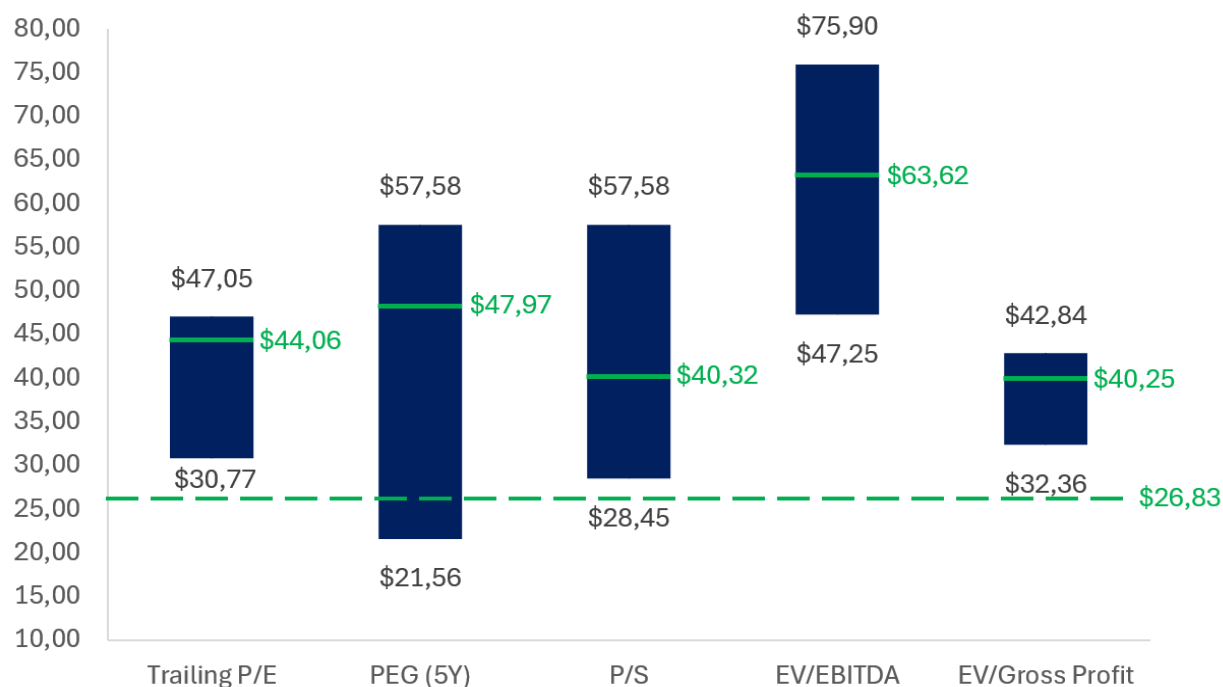
Valuation Metrics

Table 3. Market Comparables (latest TTM data)

Name	Trailing P/E	PEG (5Y)	P/S	EV/EBITDA	EV/Gross Profit
The Hershey Company (HSY:NYSE)	19,46	43,59	3,79	14,96	8,06
General Mills, Inc. (GIS:NYSE)	11,90	3,53	1,55	10,84	6,23
Kellanova (K:NYSE)	20,78	3,57	2,27	14,73	7,55
Tyson Foods, Inc. (TSN:NYSE)	21,72	0,50	0,37	8,99	7,70
McCormick & Company, Inc. (MKC:NYSE)	24,76	3,48	2,88	17,84	9,04
The Kraft Heinz Company (KHC:NASDAQ)	12,25	0,94	1,28	18,67	5,75

Minimum	11,90	0,50	0,37	8,99	5,75
25th Percentile	14,05	1,58	1,35	11,81	6,56
Median	20,12	3,51	1,91	14,85	7,62
Average	18,48	9,27	2,02	14,34	7,39
75th Percentile	21,49	3,56	2,73	17,12	7,97
Maximum	24,76	43,59	3,79	18,67	9,04

Graph 1. Valuation Range



From our valuation analysis, it is evident that Kraft Heinz (KHC) appears undervalued across all metrics used at the current price of \$26,83. All of its major competitors are currently trading at higher multiples, with only few exceptions for TSN and GIS. However, this apparent undervaluation must be viewed in light of our previous financial performance analysis. The market is likely pricing KHC at lower multiples due to its weaker growth outlook and underwhelming financial ratios. The decline in revenues, the maturity of the packaged food industry, and the reduction in dividends (from \$2.50 in 2018 to a fixed \$1.60 since 2019) are key factors that may have prompted investors to divest from the company, contributing to a stock price that has been fluctuating and gradually declining from 2021. The first and major decline began in 2017 and was significantly accelerated by the \$15.4 billion impairment charge in fiscal year 2018, which included a \$7.1 billion goodwill impairment related to the U.S. Refrigerated and Canada Retail units, and an \$8.3 billion write-down of the *Kraft* and *Oscar Mayer* brand intangible assets. As a result, the company reported a net loss of \$12.6 billion after taxes, further eroding investor confidence. More recently, the stock's performance has been pressured by multiple downgrades from major financial institutions such as Bank of America, Citi, Deutsche Bank, and Piper Sandler between 2024 and 2025. These downgrades reflect concerns over KHC's limited growth investment and slow revenue recovery. Additionally, another potential factor impacting investor sentiment is the change in KHC's relationship with Berkshire Hathaway Inc., which has been a major shareholder since before the company's IPO and currently holds 27.51% of total shares. On May 20th, Kraft Heinz announced that Berkshire Hathaway will no longer retain seats on the company's Board of Directors. This move has raised concerns among investors, who now fear a potential partial divestment by Berkshire, whose stake in KHC is valued at over \$8.5 billion. This uncertainty is contributing to recent downward pressure on the stock.

Risks

Macro Risks

Macroeconomic Instability: KHC is susceptible to macroeconomic factors such as inflation, recession, and volatile commodity prices, which can increase input costs and negatively affect their market share. With approximately 75% of its revenues generated in the U.S., the company is particularly exposed to domestic economic policies. The current administration's stance on tariffs and trade policies could further influence KHC's cost structure and pricing strategies.

Foreign Exchange and Geopolitical Exposure: Operating in various international markets, KHC is exposed to currency volatility and geopolitical instability, especially in emerging economies. Fluctuations in exchange rates can affect the company's profitability, while political and economic unrest can disrupt supply chains and market operations.

Climate Change & Environmental Risk: Climate change poses both physical and transitional risks to KHC. Extreme weather events, such as droughts and floods, can disrupt agricultural supply chains, leading to increased costs and supply shortages. For instance, water scarcity in key agricultural regions can affect the availability of essential raw materials. KHC conducts water risk assessments for its manufacturing operations and has implemented water-saving initiatives in high-risk areas.

Industry-Specific Risks

Changing Consumer Preferences: The food industry is experiencing a shift in consumer behavior, as preferences move toward healthier, more sustainable, and ethically sourced products. As consumers increasingly seek transparency and nutritional improvements, traditional packaged foods may lose relevance unless companies adapt.

Regulatory and Legal Compliance: The food industry is a highly regulated environment. These compliance requirements not only carry legal and financial risks but also demand ongoing investment in monitoring and reporting systems.

Retailer Consolidation and Private Label Competition: With significant negotiating power, major retailers are able to demand lower prices and better terms from suppliers, while also promoting their own store-brand alternatives. The result is mounting pressure on margins and shelf space for those easily substitutable goods

Sustainability and ESG Expectations: Investors and consumers are paying closer attention to sustainability and ESG. Any perceived shortcomings in sustainability performance can impact brand perception and influence investment decisions, making ESG a critical factor in long-term competitiveness.

Company-Specific Risks

Innovation and Brand Relevance: KHC faces the risk that slow product innovation or failure to align with evolving consumer trends could weaken its competitive edge. If the company does not successfully modernize its iconic brands or introduce appealing new products, it may lose market share to more innovative competitors and niche brands.

Operational and Supply Chain Disruptions: KHC's reliance on a network of suppliers, co-manufacturers, and logistics providers exposes it to operational risks. Supply shortages, quality issues, transportation delays, or disruptions caused by external factors could interrupt production and delivery. Such interruptions might lead to product shortages, increased costs, or damage to customer relationships.

Conclusion

The Kraft Heinz Company (KHC) operates in a mature industry and has experienced limited growth in recent years. While the company does not outperform its competitors in financial performance, it distinguishes itself through financial solidity. Adding to the downward pressure, KHC recently lowered its 2025 outlook across several metrics to factor in potential upward cost pressures from tariff changes. Although its stock price reflects these challenges, the market seems overly pessimistic about a company that still holds a respectable market share and maintains a track record of stable, albeit underwhelming, financial results. As a matter of fact, the company appears significantly

undervalued: our conservative fair value estimate is around \$40 per share, and, according to AlphaSpread, the worst-case scenario values the stock at \$30 - approximately 11% above current prices. The company is paying the price for a lack of innovation, with its iconic brands increasingly viewed as relics from an era when consumers were less focused on healthy eating. However, KHC is actively exploring “strategic transactions to unlock shareholder value” - as announced by Company’s Board of Directors and Executive Leadership Team on May 20th - which could include divesting underperforming assets, spinning off its most profitable businesses, and potentially acquiring companies to refresh its brand portfolio. In addition, KHC plans to invest \$3 billion in U.S. manufacturing to mitigate trade uncertainties, with most of its products produced domestically. On the ESG front, the company has committed to providing more detailed information about its roadmap to achieve net-zero emissions by 2050.

At this stage, we recommend a cautious approach for two main reasons: first, if Berkshire Hathaway reduces its stake, the stock price could decline further; second, the success of any strategic transactions will depend on effective execution and favorable market conditions. That said, we believe investors should closely monitor the situation for any potential positive developments. For these reasons, we assign The Kraft Heinz Company a HOLD rating.

Citations

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