Mecca Partners, Affiliate of the General Partner
Security Analysis – Control Investments
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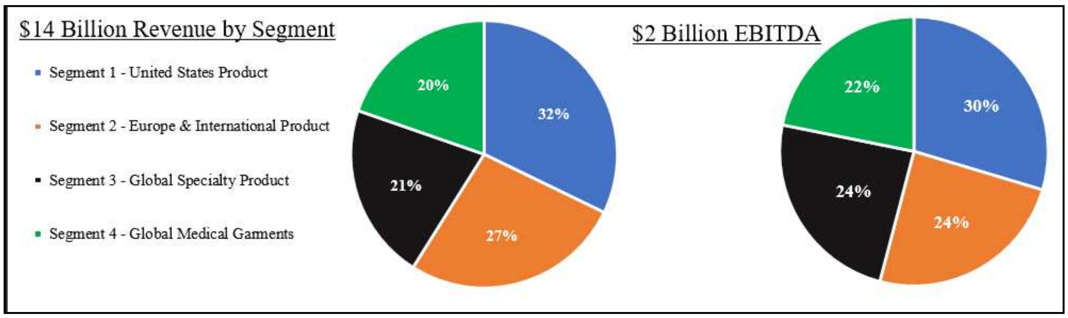
1. We have identified a target company (Target) currently trading for an equity value of $6.6 billion with a stock price of $55 per share. We believe the stock is undervalued to begin with; but with prudent active management and redirection, we believe the stock may be worth between $100 – $170 per share.

2. We believe the Target is undervalued because (a) it is over-levered (b) management routinely and excessively spends cash flow and (c) corporate actions meant to improve the valuation gap are categorically failing.

3. Failing corporate actions include (a) sizeable share repurchase programs (b) inauguration and continuation of quarterly dividends and (c) incomplete and unconvincing de-levering campaigns. These are actions that should have worked but have failed.

4. First, we delineate the Target is quantitatively undervalued based on:
   - Earnings, cash flow modeling, and various and exhaustive comparable analyses.
   - Additionally, Target is a standout from its peers. It is the leader or second-place in almost all material categories. It does not delineate characteristics of most laggards when compared to their peers, such as cash flow unpredictability or margin volatility. These facts, along with promising but failed corporate actions, allow us to conclude the two biggest issues with the company are the leverage and the excessive, unproven capital expenditure.

5. Cash Flow: In FY 2022, Target reported:
   - $14.5 billion in revenue.
   - $1.2 billion in operating income.
   - $2.0 billion in EBITDA.
   - $1.5 billion operating cash flow.
   - $870 Free Cash Flow (Levered FCF).
   - $750 million net income.



   - A discounted cash flow model using free cash flow **based on no change to corporate actions delineates** Target is undervalued. We believe there is 31% upside in the share price if our outside influence is not introduced. Additionally, Target is under-correlated with recessions and inflation.

Discount Rate	**6.6%**
Sum of PV FCF	**$ 3,883**
FCF 2027	**$ 950**
Terminal Value	**$ 12,269**
Enterprise Value	**$ 16,152**
Total Debt	**$ 8,212**
Cash	**696**
Equity Value	**$ 8,636**
Intrinsic Value	**$ 73**
Upside	**31%**

   - Target's valuation lags its sector and the market by a wide margin. The table below delineates how discounted the Target is and how much upside should be available for shareholders based only on sector averages. Note, the EBITDA multiple is defined as Enterprise Value divided by the historic earnings from operations; Target's Enterprise Value is high because of oversized debt (enterprise value = equity value + net debt). We analyze 7 companies to assert sector proxies which are in line with the S&P 500 proxies and S&P 500 sector proxies (materials).

	Target's Multiple	Sector's Multiple	Upside
EBITDA ($2 billion)	**7.4x**	**9.9x**	**see further calculation**
Free Cash Flow ($800 million)	**7.5x**	**22.7x**	**201%**
Earnings ($750 million)	**8.6x**	**20.2x**	**135%**

← 80% (page 7)

   - Target is categorically undervalued relative to its peers. Although Target's sector – a mature one – historically trades for lower multiples relative to indices (because it is mature), Target lags significantly. Often, laggards delineate unattractive characteristics presenting business risk. However, as we will delineate, the Target is an industry leader. The issues Target needs to resolve – like leverage and spending – are not grim operational risks. In fact, we believe the Target is a stable, recession-proof business delineating under-correlated expected return (beta is below 1.1 and would be lower without leverage).
   - Target is a laggard because of the debt load. Target's PE ratio is low because of the debt load but also because it is directly influenced by the cost from debt load (interest expense). Reducing the debt reduces interest expense, all else equal. However, interest expense is higher if short term interest rates are higher. Rising interest rates increase future interest expense and reduce future expected free cash flow and net income. We delineate all valuation multiples and ratios are low because of the debt load.
   - **In our opinion, management directly harms shareholders by keeping leverage high (as well by other corporate actions like irresponsible CAPEX spending).**

Rank Relative to Peers	
Revenue	2nd of 8
Market Cap	3rd (should be 1st or 2nd)
Total Debt	1st
Enterprise Value	2nd
Shares Outstanding	inconsequential
Book Value	2nd
PE Ratio	8th
EBITDA	1st
EV/EBITDA	7th
Net Debt/EBITDA	2nd
Market Cap/EBITDA	7th
Gross Margin	often changes (COGS inflation)
EBITDA Margin	3rd
FCF	2nd
FCF Yield	1st
Unlevered Yield	2nd
Dividend Yield	7th

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6. Target is a standout amongst peers yet undervalued relative to the group.

- Target and peers procure raw materials from suppliers; Target is the largest procurer of the industry's raw material in the world and retains a quantity-based pricing advantage. Target is the second largest by revenue, but not by much. One major blemish here is how much Target's market value lags Comparable # 7's market value.

	Revenue	Market Cap	Enterprise Value	Total Debt	Book Value	PE Ratio
Comp 1	$ 5,600	$ 4,100	$ 7,400	$ 3,600	$ 300	8.5x
Comp 2	$ 7,200	$ 5,600	$ 8,600	$ 3,200	$ 1,800	12.1x
Comp 3	$ 3,800	$ 5,300	$ 7,400	$ 2,000	$ 1,800	20.9x
Comp 4	$ 6,200	$ 1,400	$ 5,000	$ 4,100	$ 1,500	37.9x
Comp 5	$ 6,400	$ 4,400	$ 7,300	$ 3,400	$ 1,700	13.2x
Comp 6	$ 3,300	$ 8,000	$ 9,000	$ 1,100	$ 2,000	33.5x
Comp 7	$ 14,500	$ 12,400	$ 18,100	$ 6,400	$ 4,100	15.2x
TARGET	$ 14,500	$ 6,600	$ 15,100	$ 9,200	$ 3,300	8.6x
Ave. (Excludes Target)	$ 6,700	$ 5,900	$ 9,000	$ 3,400	$ 1,900	20.2x

- Target generates the most EBITDA yet trades at close to the lowest multiple. In our opinion, this is an unacceptable reality.
- Despite materially – but incompletely – improving leverage, Target still has nearly the highest leverage ratio and the highest debt load.

	EBITDA	EV/EBITDA	Net Debt/EBITDA	Market Cap/EBITDA	Gross Margin	EBITDA Margin
Comp 1	$ 1,100	6.6x	2.9x	3.7x	31%	20%
Comp 2	$ 1,000	8.8x	3.0x	5.7x	20%	14%
Comp 3	$ 550	14.0x	3.9x	10.1x	20%	14%
Comp 4	$ 750	6.8x	4.8x	1.9x	16%	12%
Comp 5	$ 850	8.5x	3.3x	5.2x	16%	13%
Comp 6	$ 600	14.8x	1.7x	13.1x	35%	18%
Comp 7	$ 1,900	9.7x	3.1x	6.7x	19%	13%
TARGET	$ 2,000	7.4x	4.2x	3.2x	16%	14%
Ave. (Excludes Target)	$ 1,000	9.9x	3.2x	6.6x	23%	15%

- Target trades for the lowest PE and FCF multiples despite generating the highest or second highest earnings (net income) and free cash flow (FCF). Target's closest comparable (comparable 7) is qualitatively and quantitatively similar, yet benefits from substantially better valuation. The Target's dismal PE ratio of <10x is substantially lower than the S&P 500's PE ratio of 25x (and the S&P 500's median ratio of 15x). The industry PE ratio is also much higher at 22x (or 19x when adjusted for extremities). Index inclusion is something we believe Target should be worthy of if appropriately redirected.

	FCF	FCF Yield	FCF Multiple	Unlevered Yield	Dividend Yield	Earnings
Comp 1	$ 400	9%	11.2x	5%	1.8%	$ 500
Comp 2	$ 200	3%	31.3x	2%	3.5%	$ 500
Comp 3	$ 100	2%	59.2x	1%	3.3%	$ 300
Comp 4	$ (100)	-9%	-11.5x	-2%	4.7%	$ 100
Comp 5	$ 500	12%	8.4x	7%	1.6%	$ 400
Comp 6	$ 200	2%	47.7x	2%	1.4%	$ 300
Comp 7	$ 1,000	8%	12.4x	6%	5.0%	$ 900
TARGET	$ 900	13%	7.5x	6%	1.8%	$ 800
Ave. (Excludes Target)	$ 400	5% (excludes extremity)	22.7x	3%	3.0%	$ 450

- Target generates **12% free cash flow yield** and **5% unlevered yield**, the highest and second highest in its peer group, respectively. Yet, Target trades at the second lowest multiple (the lowest belongs to a peer with negative cash flow in 2022). We delineate FCF and UFCF on page 9.

- Target's position in this sector (leading but relatively, and severely, undervalued) is largely unchanged from 2020, before Target modestly improved leverage and substantially reduced shares outstanding. In 2020, Target ranked first (last) or second (second last) in most – and the most important – quantitative criterion.

	2020	2023	Outcome
Revenue	$12,000	$14,500	Neutral (inflation + moderate volume)
Market Cap	$8,500	$7,500	Contracted
Total Debt	$10,000	$9,200	Improved (contracted)
Enterprise Value	$18,000	$16,000	Neutral (two moving parts)
Shares Outstanding	136	118	Improved (contraction without price/share accretion)
Book Value	$2,100	$3,000	Improved
PE Ratio	15.3x	9.7x	Contracted
EBITDA	$2,000	$2,000	Neutral
EV/EBITDA	8.8x	7.8x	Contracted
Net Debt/EBITDA	4.6x	4.2x	Improved (contacted)
Market Cap/EBITDA	4.2x	3.6x	Contracted
Gross Margin	21%	16%	Neutral (pass-through)
EBITDA Margin	17%	14%	Neutral (COGS inflation)
FCF	$950	$900	Marginal Contraction
FCF Yield	11%	12%	Nuetral (market cap down)
Unlevered Yield	5%	5%	Marginal Improvement
Dividend Yield	none	1.6%	Improved (inaugurated)

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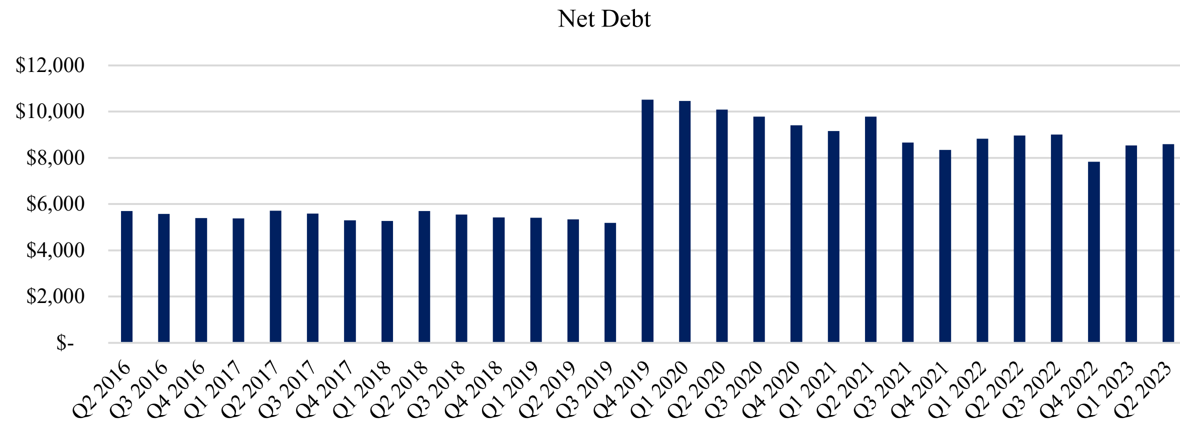
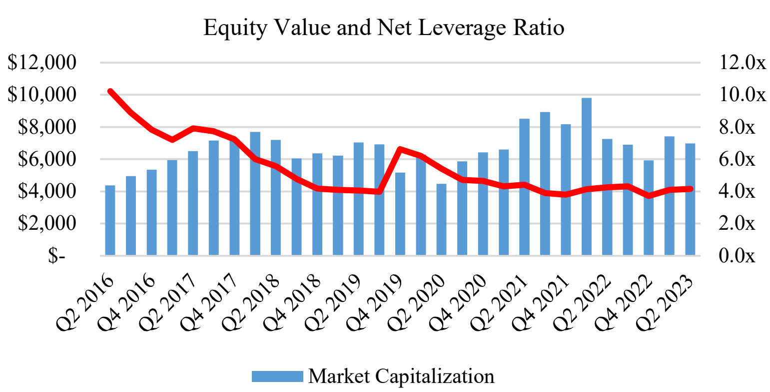
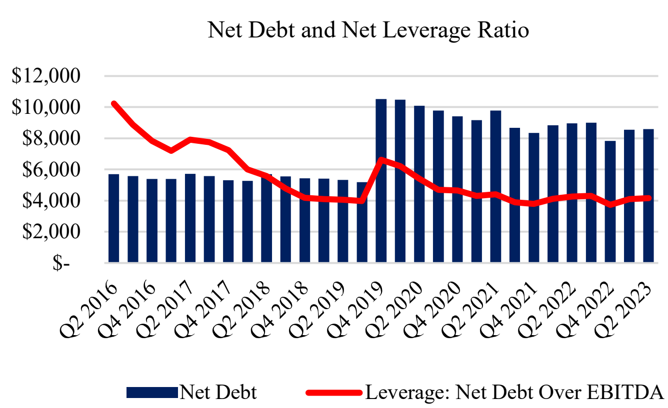
7. Target is over-levered

- Market Capitalization is only $6.5 billion while net debt is $8.5 billion. **Net debt is greater than equity value**.



- Target's management attempted many times to unearth value by reducing Target's debt. This effort has failed to unearth equity value **but has improved the balance sheet**. Leverage improved from over 10x (debt-to-adjusted operating earnings) to 4.2x. Most recently, management provided guidance for further debt reduction. Management moved the net leverage ratio goal to 3.0 – 3.9x, down from the incumbent goal of 4.0 – 4.9x.
  - The issue is two fold: (1) Historically, institutional investors are bound by parameters. Appropriate net leverage ratio is one of these parameters. The Target's main competitor – Comparable # 7 – is a very similar business; **and it is a constituent of the S&P 500 index.** Target is not. Target is an **otherwise appropriate constituent** but investors will not overlook obscene leverage. (2) Debt reduction mechanically reduces provision for interest expense. However, the reduction in interest expense is offset by increasing interest rates. Short term rates have increased from 0.6% in The United States to 5.0% in 2023. Mortgage rates have reached 8%. Furthermore, part of Target's debt reduction program included refinancing, which is now harder to do. We believe the debt reduction programs will never be satisfactory until debt is extinguished. We would like to see net debt at least halved or, ideally, completely extinguished. **We believe management harmed shareholders with the over-use of leverage and continues doing so.**
  - The debt reduction campaigns failed in creating value based on the market value of equity, AKA stock price is flat and Target remains undervalued. This is a failure. However, the reduction in debt is a still welcomed improvement. Had Target's management not de-levered at all, interest expense would balloon and reduce FCF substantially. The gap between FCF and UFCF is currently an estimated $300 million, still far too wide in our opinion.





8. Debt reduction and/or complete debt extinguishment may unearth tremendous value.

- Value may be created beyond just cash flow retention. Debt reduction and/or extinguishment may unearth value mechanically (delineated on pages 7, 9, 10, 11, and 12); and, it may unearth additional value management's past mechanically accretive actions failed unearthing.

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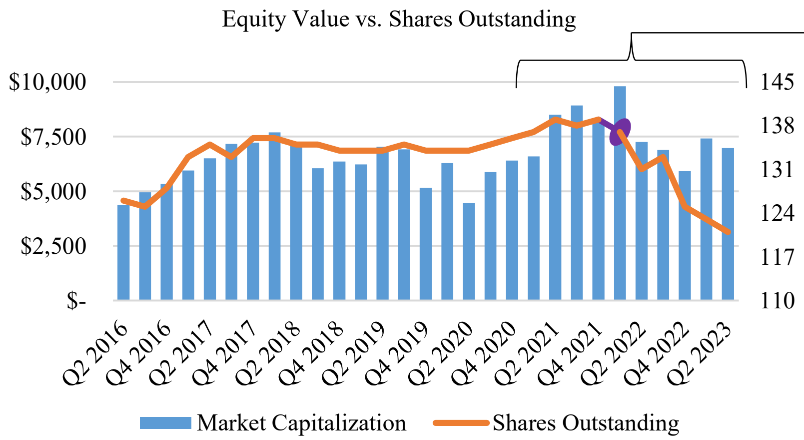
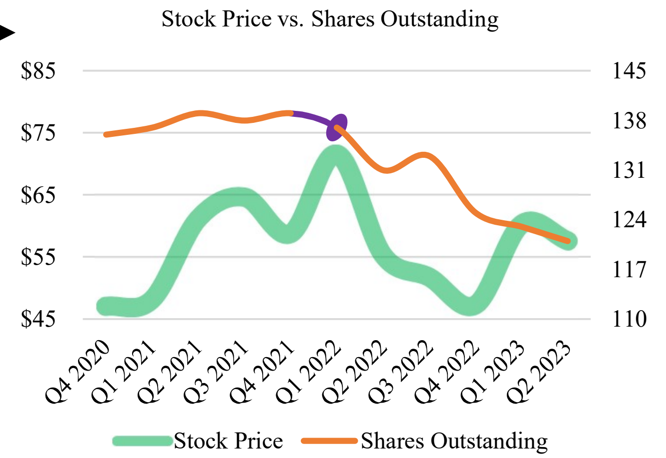
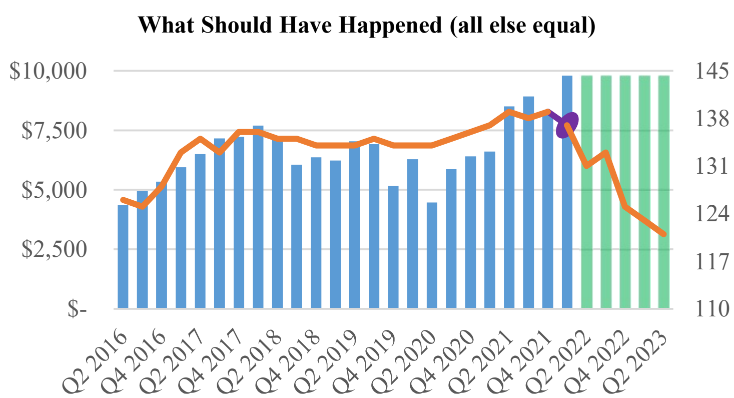
9. The share repurchase program should have **mechanically** appreciated stock price, **all else equal (**stock price is equity value divided by number of shares). We delineate this in the graphics immediately below; however, when investigating factors often responsible for falling valuations, we determined the Target's operations **improved**. Further, macroeconomic instability is not an excuse for Target's valuation problem. We determined Target's operations are under-correlated to recessions **as well as inflation**. We delineate Target's under-correlated and inflation protected characteristics on page 9.

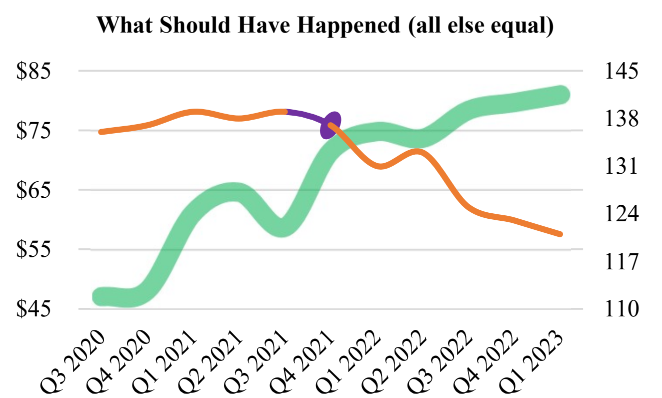
- First, we delineate the share repurchase program mechanically failed, all else equal. The purple data point identifies the period repurchases began.





- Based on the $9.8 billion valuation at the end of the period ending March 31, 2022, the steady-state stock price **should have been $81**. This is 46% higher than today's stock price and valuation. We argue this is what mechanically should have happened (delineated immediately below).





- Using a conservative valuation, like the $8.2 billion valuation at the end of the period ending December 31, 2021, we arrive at the stock price of $69 and a premium of 25% (not pictured) based on mechanic output after reducing share count.
- We established shares are undervalued and we established failed corporate actions delivered welcomed improvements (in spite of themselves). Hence, we believe there is hidden upside in the stock beyond cash flow growth and operating cash flow retention. We also established the Target is attractive because it is big, diversified, and stable and steady; and, we assert operations are recession-proof. We may now delineate Target's inflation-resistance. In spite of historic valuation shortcomings, there are still good, academically-sound reasons for investment in Target (our caveat is the Target is mismanaged).

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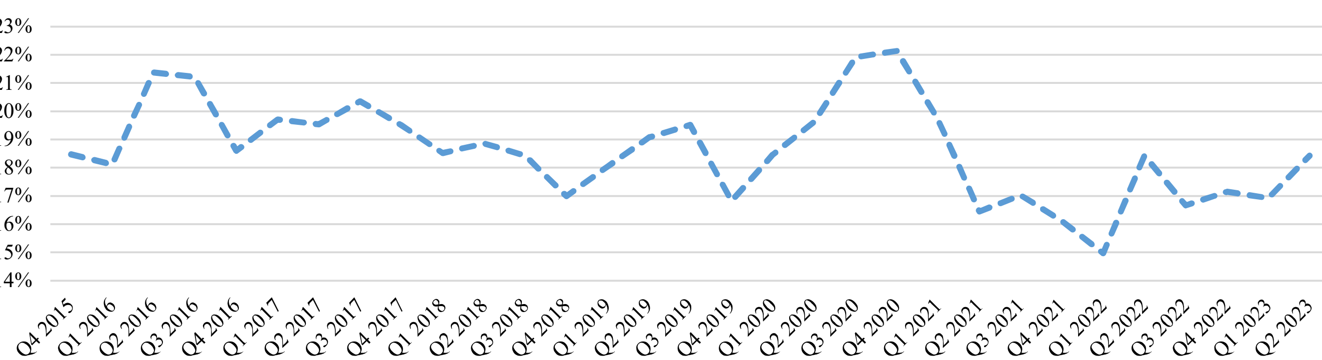
10. Operations are under-correlated with inflation. Inflation under-correlation and recession-resistance are attractive long-term investment characteristics.

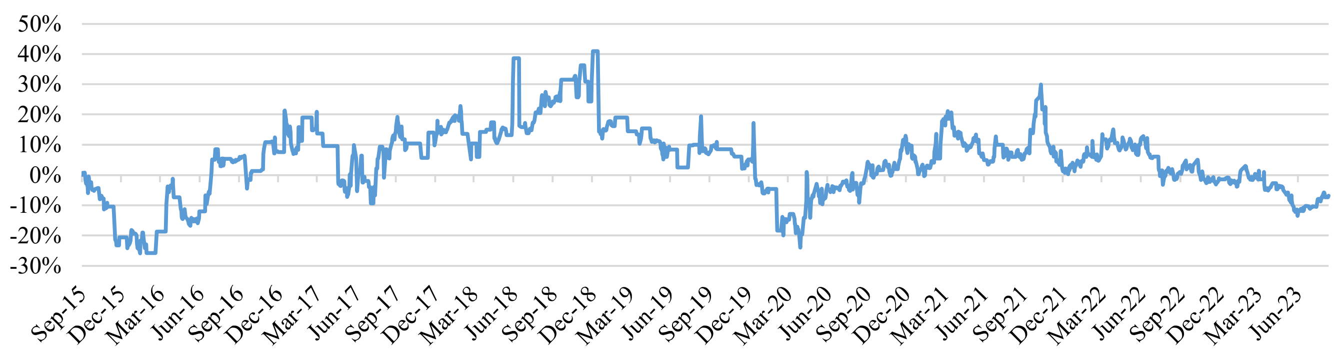
- Contractual pass-through of cost inflation (onto customers) provides economic inflation protection. However, in some materials, only 70% of cost inflation is passed-through. Other raw materials included in input costs are also subject to inflation and pass-through.
- Commodity price fluctuation in raw materials the Target procures is the main component for Target's inflation (passed onto customers). Hence, Target's gross margin is – and will be – expectedly volatile.
- Inflation must happen first before the target may pass the cost on to customers; hence, there is a 90-day lag before revenue is higher. During this lag, gross margin will be lower.

Target's Gross Margin



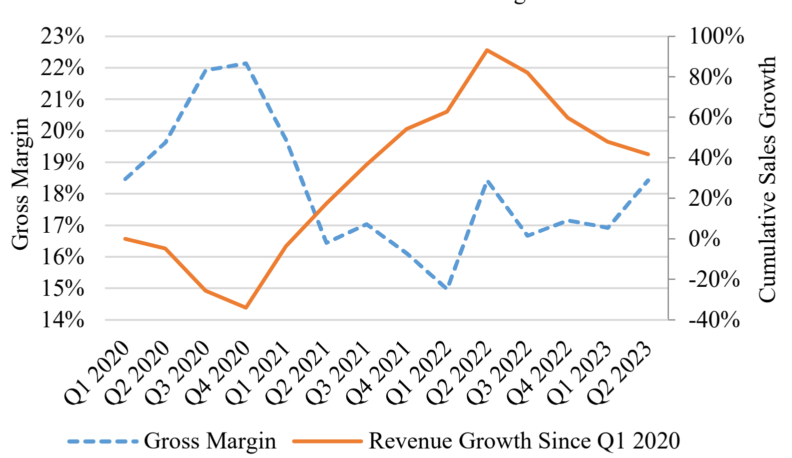
11. After a sizeable acquisition in 2016, the Target became the largest procurer of its raw material in the world. Along with size, Target inherited meaningful procurement advantages. External research from investment managers proposes procurement pricing advantage doubled after the merger in 2016.

Commodity Futures for Target's Finished Goods' Input



- We observe an inverse relationship between revenue growth and gross margin in periods of inflation; however, it is not perfectly negatively correlated as there is some organic growth and contraction (as well as pass-through lag and foreign exchange rate volatility). The organic revenue fluctuation is from single-digit-percent-delta in macroeconomic demand. The company serves mature markets.
- We delineate cumulative quarterly growth since 2020; a material, accretive acquisition was completed in 2019.
- Revenue growth is not to be confused with volume growth. Volume growth has remained modest and is usually mid-single digits on a YoY basis. Through Q3 2023, volume growth did decline YoY but is expected to rebound.
- Ultimately, gross margin delta (inflation and deflation) does effect cash flow margin but this is not a linear relationship and contractual inflation pass-through mitigates margin volatility and accretion/deterioration. Overall periodic revenue delta is designed to have little effect on cash flow over time, all else equal.

Sales Growth and Gross Margin



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12. Target is a predictable business; management provides guidance with reasonable visibility. The prudent factors most difficult to forecast are cost inflation and volume growth/contraction. As we delineated on page 6, inflation volatility is under-correlated with the rest of The United States and global economies. In fact, inflation protection is part of the thesis for why investors buy Target's stock. As for volume growth/contraction, it is usually in the single digit range YoY and we model a perpetual revenue growth rate of 1% in 2027 and beyond (also used in our models already delineated).

Operating Results	Actual			Mecca Partners Forecast				
	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Total Revenue	$ 11,709	$ 13,850	$ 14,495	$ 12,756	$ 12,947	$ 13,335	$ 13,202	$ 13,334
Cost of Goods Sold	$ 9,301	$ 11,352	$ 12,123	$ 10,541	$ 10,582	$ 10,900	$ 10,791	$ 10,899
Gross Profit	$ 2,408	$ 2,498	$ 2,372	$ 2,215	$ 2,365	$ 2,436	$ 2,411	$ 2,435
Gross Margin	21%	18%	16%	17%	18%	18%	18%	18%
Total Operating Expenses	$ 1,229	$ 1,206	$ 1,130	$ 1,020	$ 1,062	$ 1,120	$ 1,109	$ 1,120
Operating Income	$ 1,179	$ 1,292	$ 1,242	$ 1,194	$ 1,303	$ 1,315	$ 1,302	$ 1,315

- Recall from page 6 the revenue growth through 2022 is a function of contractual pass through.

13. Target generates $2 billion EBITDA. Valuation methodologies for Target include private equity valuation approaches. These are simply multiples of EBITDA or EV/EBTIDA. This is one appropriate approach because Target (1) operates like an acquisitive bolt-on-to-platform private equity firm and (2) has previously been bought out by a private equity firm (it was a public company taken private and subsequently, years later, brought public again).

EBITDA	Actual			Mecca Partners Forecast				
	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Operating Income	$ 1,179	$ 1,292	$ 1,242	$ 1,194	$ 1,303	$ 1,315	$ 1,302	$ 1,315
ADD BACK: Depreciation	$ 545	$ 566	$ 562	$ 558	$ 567	$ 584	$ 578	$ 584
ADD BACK: Ammortization	$ 300	$ 288	$ 257	$ 290	$ 294	$ 303	$ 300	$ 303
EBITDA	$ 2,024	$ 2,146	$ 2,061	$ 2,043	$ 2,164	$ 2,202	$ 2,180	$ 2,202

- Deriving the appropriate multiple is key. We refer to the sector EV/EBITDA multiple. Target is a leader in the sector yet trades for the second lowest EV/EBITDA multiple. Target should be closer to Comparable 7; debt load holds Target back.

	Market Cap	Net Debt	Enterprise Value	EV/EBITDA	Net Debt/EBITDA
Comp 1	$ 4,100	$ 3,300	$ 7,400	6.6x	2.9x
Comp 2	$ 5,600	$ 3,000	$ 8,600	8.8x	3.0x
Comp 3	$ 5,300	$ 2,100	$ 7,400	14.0x	3.9x
Comp 4	$ 1,400	$ 3,700	$ 5,000	6.8x	4.8x
Comp 5	$ 4,400	$ 2,900	$ 7,300	8.5x	3.3x
Comp 6	$ 8,000	$ 1,100	$ 9,000	14.8x	1.7x
Comp 7	$ 12,400	$ 5,800	$ 18,100	9.7x	3.1x
TARGET	$ 6,600	$ 8,600	$ 15,100	7.4x	4.2x
Ave. (Excludes Target)	$ 5,900	$ 3,100	$ 9,000	9.9x	3.2x

- Using the sector average of 9.9x, we derive a price target of $98 with 80% upside.

	Current	Applied
EBITDA (next year estimate)	$ 2,043	$ 2,043
EBITDA Multiple	7.4x	9.9x
Implied Enterprise Value	$ 15,014	$ 20,166
LESS: Net Debt	$ 8,579	$ 8,579
Equity Value	$ 6,435	$ 11,587
DIVIDE: Shares	119	119
Price Target (currently $55)	$ 54	$ 98
Upside	-	80%

- We then (below) adjust net debt downward. We believe the EV/EBITDA multiple will not expand until debt is reduced. We believe management's target of 3.0x – 3.9x is unsatisfactory and believe Target should be debt free or at least pay down half the debt. We delineate both scenarios: a halfway de-levered Target and a fully de-levered Target. Shares delineate between 80% and 213% upside. Our debt free analysis derives a price target of $170 with 213% upside. This does not account for future share buybacks nor further repurchases (which would only modestly move price targets in both directions).

	Current EV/EBITDA Multiple	Applied EV/EBITDA Multiple	Applied + Half Debt Eliminated	Applied + Debt Extinguished
EBITDA (next year estimate)	$ 2,043	$ 2,043	$ 2,043	$ 2,043
EBITDA Multiple	7.4x	9.9x	9.9x	9.9x
Implied Enterprise Value	$ 15,014	$ 20,166	$ 20,166	$ 20,166
LESS: Net Debt	$ 8,579	$ 8,579	$ 4,290	$ -
Equity Value	$ 6,435	$ 11,587	$ 15,877	$ 20,166
DIVIDE: Shares	119	119	119	119
Price Target (currently $55)	$ 54	$ 98	$ 134	$ 170
Upside	-	80%	147%	213%

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14. We may also determine appropriate valuation using an earnings multiple. Target's PE ratio gap is abnormally wide. Target trades dismally at 8.6x earnings and the sector trades 20.2x earnings. The S&P 500 index PE ratio is 25x.

	PE Ratio
Comp 1	8.5x
Comp 2	12.1x
Comp 3	20.9x
Comp 4	37.9x
Comp 5	13.2x
Comp 6	33.5x
Comp 7	15.2x
TARGET	8.6x
Ave. (Excludes Target)	20.2x

- We delineate several scenarios. Previously, on page 7, we delineated private equity valuations using EBITDA. EBITDA is not affected by changes in interest expense. Net income is, and it will **expand** if debt is reduced (all else equal, and especially as long as interest rates do not rise and even more so if rates fall). Enough debt reduction will offset rising interest rates, **something management should have guarded against**.

	Sector PE Ratio	Comparable 7 PE Ratio (proxy)	Midpoint Adjusted Net Income, Proxy PE Ratio	Adjusted Net Income, Proxy PE	Adjusted Net Income, Sector PE Ratio
Net Income (next year estimate)	$ 692	$ 692	$ 842	$ 992	$ 992
EPS	$ 5.83	$ 5.83	$ 7.09	$ 8.35	$ 8.35
Applied PE Ratio	20.2x	15.2x	15.2x	15.2x	20.2x
Price Target	$ 118	$ 89	$ 108	$ 127	$ 169
Upside	112%	60%	95%	130%	205%

- From left to right: (1) the sector PE ratio of 20.2x applied to Target's net income.
- From left to right: (2) comparable # 7's PE ratio of 15.2x applied to Target's net income.
- From left to right: (3) comparable # 7's PE ratio of 15.2x applied to Target's net income adjusted by adding back estimated interest savings to account for a scenario in which management pays down half of the debt. Calculated simply by adding back half of the provision for interest expense.
- From left to right: (4) comparable # 7's PE ratio of 15.2x applied to Target's net income adjusted by adding back estimated interest savings to account for a scenario in which management extinguishes all the debt. Calculated simply by adding back all of the provision for interest expense.
- From left to right: (5) the sector PE ratio of 20.2x applied to Target's net income adjusted by adding back estimated interest savings to account for a scenario in which management extinguishes all the debt. Calculated simply by adding back all the provision for interest expense.
- As delineated, there may be a lot of upside in the stock if our deliverables are met.

15. In our opinion, both the sector multiple of 20.2x and the proxy multiple of 15.2x (based on comparable 7) are appropriate. Comparable 7 still has a leverage ratio of 3.1x, lower than Target's 4.2x but still modest. We believe Target should at least equal valuation multiples and ratios of comparable 7; but, Target should also extinguish debt aggressively. Fully extinguishing debt may lead to not only multiple expansion and will lead to substantial earnings growth. If Target achieves this goal, our calculation derives a $169 price target, 205% higher than todays stock price of $55 and over **$15 billion more equity value** than today's market capitalization of $6.6 billion.

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16. We may also determine appropriate valuation using free cash flow multiples. Once again, Target is a laggard. Target generates the second highest (levered) FCF and trades for the second lowest multiple (the lowest is an extremity in the data set).

	FCF		FCF Yield	FCF Multiple	Unlevered Yield	Dividend Yield
Comp 1	$	400	9%	11.2x	5%	1.8%
Comp 2	$	200	3%	31.3x	2%	3.5%
Comp 3	$	100	2%	59.2x	1%	3.3%
Comp 4	$	(100)	-9%	-11.5x	-2%	4.7%
Comp 5	$	500	12%	8.4x	7%	1.6%
Comp 6	$	200	2%	47.7x	2%	1.4%
Comp 7	$	1,000	8%	12.4x	6%	5.0%
TARGET	$	900	13%	7.5x	6%	1.8%
Ave. (Excludes Target)	$	400	5% (excludes extremity)	22.7x	3%	3.0%

- We find the industry constituents' FCF is much smaller than Target's, except for Comparable # 7. Comparable #7 is very similar to our Target in both size and business. Hence, we use Comparable # 7 as a proxy for FCF valuation; but, note, the multiples for all other constituents are higher, if not substantially higher, so long as other constituents do not have staggering debt or negative cash flow (again delineating **Target will benefit by extinguishing debt**).
- Based on FCF alone, and using Comparable # 7 as proxy, shares delineate 65% upside.

	Target's Multiple	Comparable 7 M	Upside
EBITDA ($2 billion)	7.4x	9.7x	see further calculation
Free Cash Flow ($800 million)	7.5x	12.4x	65%
Earnings ($750 million)	8.6x	15.2x	78%

80% (page 7)

- We may also use the proxy FCF multiple in discounted cash flow valuation models, which we delineate on page 10.

17. The FCF multiple may be applied to future periods. However, this is not crucial for our analysis because Target's cash flow grows modestly, organically (recall this is a mature and often acquisitive business). What we may analyze, though, is unlevered free cash flow and adjustments to free cash flow from corporate actions (and the value of these cash flows using our models). Thus, we do visit future periods in our calculations but simply for calculation purposeless; adjustments may apply similarly to historic or current periods. Below, we delineate. The numeric difference between Levered FCF and Unlevered Free Cash Flow is interest expense. **Unequivocally, debt is hurting shareholders and suppressing valuation**.

Levered Free Cash Flow	Actual			Mecca Partners Forecast				
	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Operating Income	$ 1,179	$ 1,292	$ 1,242	$ 1,194	$ 1,303	$ 1,315	$ 1,302	$ 1,315
Interest Expense	$ 435	$ 336	$ 286	$ 300	$ 300	$ 300	$ 300	$ 300
Other Expenses	$ 31	$ 51	$ 22	$ 30	$ 30	$ 30	$ 30	$ 30
Taxes	$ 154	$ 172	$ 168	$ 173	$ 195	$ 197	$ 194	$ 197
Net Income	$ 559	$ 733	$ 766	$ 692	$ 778	$ 788	$ 778	$ 788
ADD BACK: Depreciation	$ 545	$ 566	$ 562	$ 558	$ 567	$ 584	$ 578	$ 584
ADD BACK: Ammortization	$ 300	$ 288	$ 257	$ 290	$ 294	$ 303	$ 300	$ 303
LESS: Delta Net Working Capital	$ (84)	$ 229	$ 25	$ (25)	$ 38	$ (55)	$ -	$ 25
Operating Cash Flow	$ 1,488	$ 1,358	$ 1,560	$ 1,565	$ 1,601	$ 1,730	$ 1,656	$ 1,650
LESS: Capital Expenditure	$ 583	$ 676	$ 687	$ 700	$ 700	$ 700	$ 700	$ 700
Levered Free Cash Flow	$ 905	$ 682	$ 873	$ 865	$ 901	$ 1,030	$ 956	$ 950

Unlevered Free Cash Flow	Actual			Mecca Partners Forecast				
	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Operating Income	$ 1,179	$ 1,292	$ 1,242	$ 1,194	$ 1,303	$ 1,315	$ 1,302	$ 1,315
Other Expenses	$ 31	$ 51	$ 22	30	$ 30	$ 30	$ 30	$ 30
Provision for Tax Expense	$ 154	$ 172	$ 168	$ 173	$ 195	$ 197	$ 194	$ 197
NOPAT	$ 1,025	$ 1,120	$ 1,074	$ 992	$ 1,078	$ 1,088	$ 1,078	$ 1,088
ADD BACK: Depreciation	$ 545	$ 566	$ 562	$ 558	$ 567	$ 584	$ 578	$ 584
ADD BACK: Ammortization	$ 300	$ 288	$ 257	$ 290	$ 294	$ 303	$ 300	$ 303
LESS: Delta Net Working Capital	$ (84)	$ 229	$ 25	$ (25)	$ 38	$ (55)	$ -	$ 25
LESS: Capital Expenditure	$ 583	$ 676	$ 687	$ 700	$ 700	$ 700	$ 700	$ 700
Unlevered Free Cash Flow	$ 1,371	$ 1,069	$ 1,181	$ 1,165	$ 1,201	$ 1,330	$ 1,256	$ 1,250

18. We further scrutinize management's free cash flow erosion on page 12. Despite the $300 million UFCF and FCF gap, we believe there is an **additional $175 – $350 million annual cash-flow-derived spending waste.**

19. We may adjust Levered FCF and Unlevered FCF. We believe Target is wastefully spending operating cash flow on sustainability CAPEX.

- Usually, CAPEX for businesses may be categorized in two ways: maintenance expenditure and growth expenditure. Maintenance CAPEX is usually high for mature, asset-heavy businesses (replacements and refurbishments, etc. and also acquisitions) such as the Target. Growth CAPEX is usually high for younger companies but may be high for mature companies also. If growth CAPEX is high, management should have an expectation the investment expenditure will produce returns in the future. CAPEX used for acquisitions may be immediately accretive but replacements/refurbishment CAPEX may not (replacement and refurbishment may be deemed necessary cost).
- Target is spending abnormal amounts of capital on sustainability. Sustainability in Target's industry is an unclear goal with significant roadblocks. For example, Target industry's sustainably-procured raw material will – this is a scientific fact – **never** retain the properties of Target industry's virgin raw material. This is especially important for Target's end products used in the handling of food and beverage as well as in freight and packaging. Note: total CAPEX is nearly $700 million with about an even split between maintenance CAPEX and 'growth/sustainability' CAPEX.
    - Target once procured 5% of raw material "sustainably." Management explained in a conference call it did not know what to do with it.

Adjustments to Free Cash Flow	Actual			Mecca Partners Forecast				
	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Levered Free Cash Flow	$ 905	$ 682	$ 873	$ 865	$ 901	$ 1,030	$ 956	$ 950
ADD: sustainability CAPEX	$ 292	$ 338	$ 344	$ 350	$ 350	$ 350	$ 350	$ 350
Adjusted Levered Free Cash Flow	$ 1,197	$ 1,020	$ 1,217	$ 1,215	$ 1,251	$ 1,380	$ 1,306	$ 1,300

- Recall: Unlevered FCF delineates cash flow after accounting for interest expense, which would shrink or disappear in the absence of debt.

Adjustments to Free Cash Flow	Actual			Mecca Partners Forecast				
	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Levered Free Cash Flow	$ 905	$ 682	$ 873	$ 865	$ 901	$ 1,030	$ 956	$ 950
ADD: Interest Expense	$ 435	$ 336	$ 286	$ 300	$ 300	$ 300	$ 300	$ 300
Unlevered Free Cash Flow	$ 1,371	$ 1,069	$ 1,181	$ 1,165	$ 1,201	$ 1,330	$ 1,256	$ 1,250
ADD: sustainability CAPEX	$ 292	$ 338	$ 344	$ 350	$ 350	$ 350	$ 350	$ 350
Adjusted Unlevered Free Cash Flow	$ 1,663	$ 1,407	$ 1,525	$ 1,515	$ 1,551	$ 1,680	$ 1,606	$ 1,600

20. We may now use **adjusted Levered FCF** and **adjusted Unlevered FCF** to derive valuation. We use 131 million shares outstanding in our calculation because we reference our year 5 cash flow forecast. In 5 years, we would like Target to issue 20 million shares (11 million, net) in order to expedite debt paydown (we explain on page 12). Below, we fist our analysis uses Target's cash flow multiple with **no change** in order to delineate upside from debt extinguishment and CAPEX winddown. If Target does not do this, it will slow the debt paydown but avoid dilution. In our forecast – shown on page 12 – we only issue shares Target repurchased in its share buyback program (including the forecasted repurchases in 2023 based on management guidance). It is a modest approach; we believe it is a sensible decision.

- Note: we must adjust the discount rate to account for debt extinguishment. The discount rate will increase if debt is extinguished because the cost of debt is often lower than the cost of equity. We welcome this change, although there is academic debate regarding acceptable debt levels meant to reduce the discount rate applied to cash flow (this increases valuation output in models, all else equal . . . but we know all else is not equal).

	Levered FCF	Adjusted Levered FCF	Unlevered FCF	Adjusted Unlevered FCF
Free Cash Flow Y5	$ 950	$ 1,300	$ 1,250	$ 1,600
Discount Rate (Levered and Unlevered WACC)	6.6%	6.6%	9.4%	9.4%
Free Cash Flow Multiple	7.5x	7.5x	7.5x	7.5x
Terminal Value	$ 7,155	$ 9,791	$ 9,414	$ 12,050
PV Terminal Value	$ 5,192.73	$ 7,105.88	$ 6,018.38	$ 7,703.55
Sum of PV FCF (2021-2025)	$ 3,194	$ 4,389	$ 3,965	$ 5,414
SUM PV FCF and Terminal Value	$ 8,386.43	$ 11,495.35	$ 9,983.09	$ 13,117.96
DIVIDE: Share Count (millions)	131	131	131	131
Price Target	$ 64.3	$ 88.1	$ 76.5	$ 100.5
Upside	16%	59%	38%	81%

- However, it is extremely unlikely for cash flow multiples to remain the same if Target extinguishes debt and curbs sustainability-CAPEX. These actions would de-lever the business and bring in an estimated $650 million in additional free cash flow. Hence, we delineate valuation using better multiples. Even before adjustments to cash flow, Target lags Comparable # 7. which we believe is inappropriate. We use Comparable # 7's Levered FCF multiple as proxy for valuations using Levered FCF and we use the midpoint between Comparable # 7 and the sector for valuations using Unlevered FCF. For reference, we note the S&P 500 index's FCF multiple is more than 30x.

	Levered FCF	Adjusted Levered FCF	Unlevered FCF	Adjusted Unlevered FCF
Free Cash Flow Y5	$ 950	$ 1,300	$ 1,250	$ 1,600
Discount Rate (Levered and Unlevered WACC)	6.6%	6.6%	9.4%	9.4%
Applied Free Cash Flow Multiple (2 proxies)	12.4x	12.4x	17.6x	17.6x
Terminal Value	$ 11,815	$ 16,168	$ 21,945	$ 28,090
PV Terminal Value	$ 8,575	$ 11,735	$ 14,030	$ 17,958
Sum of PV FCF (2021-2025)	$ 3,194	$ 4,389	$ 3,965	$ 5,414
SUM PV FCF and Terminal Value	$ 11,769	$ 16,124	$ 17,994	$ 23,372
DIVIDE: Estimated Share Count (millions)	131	131	131	131
Price Target	$ 90	$ 124	$ 138	$ 179
Upside	63%	123%	149%	223%

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21. We may also delineate valuation using academic valuations instead of cash flow multiples. This approach efficiently scrutinizes debt. Of course, and again, upside is much higher when the debt is totally lifted.

	Valuation Based on Levered FCF	Valuation Based on Adjusted Levered FCF	Valuation Based on UFCF	Valuation Based on Adjusted UFCF
Discount Rate	6.6%	6.6%	9.4%	9.4%
Sum of PV FCF	$ 3,883	$ 5,333	$ 4,764	$ 6,575.67
FCF 2027	$ 950	$ 1,300	$ 1,250	$ 1,600
Terminal Value	$ 12,269	$ 16,789	$ 9,559	$ 12,235
Enterprise Value	$ 16,152	$ 22,122	$ 14,323	$ 18,811
Total Debt	$ 8,212.00	$ 8,212.00	$ -	$ -
Cash	696	696	696	696
Equity Value	$ 8,636	$ 14,606	$ 15,019	$ 19,507
Intrinsic Value	$ 73	$ 112	$ 115	$ 149
Upside	31%	102%	108%	170%

- We do not delineate midpoint to debt extinguishment here; however, it is evident it would improve valuation. One may use the midpoints of our price targets for a quick reference, although the valuation output is not linear.
- Our models use:
  - 9% expected return for the proxy index.
  - 6% the risk free rate, referencing 1-Year LIBOR.
  - 6.6% for the discount rate (WACC) for Target today; and, 9.0% for the discount rate (WACC) when debt is fully extinguished.
  - 1% for Targe's perpetual growth rate. This is conservative given GDP growth rate in 2023 is nearly 5% and was 3% in lower -inflation periods.

22. We delineate a cash flow model using Levered FCF (same as the first output above and the same as on page 2) and compare with the same scenario but without any debt. In other words, what the valuation would be, today, if there is no debt (here, we do not model a change in share count nor secondary offerings). The debt load is hurting shareholders tremendously.

	Valuation Based on Levered FCF	Same Scenario with No Debt
Discount Rate	6.6%	9.4%
Sum of PV FCF	$ 3,883	$ 3,883
FCF 2027	$ 950	$ 950
Terminal Value	$ 12,269	$ 12,269
Enterprise Value	$ 16,152	$ 16,152
Total Debt	$ 8,212.00	$ -
Cash	696	696
Equity Value	$ 8,636	$ 16,848
Intrinsic Value	$ 73	$ 142
Upside	31%	156%

23. Of course, we believe Target should use Adjusted Cash Flow (our estimate) to extinguish as much debt as possible. We also believe Target should **expedite debt paydown** using the following options.
    - Target may suspend dividends to pay down debt until debt is reduced.
    - As Target retains more cash flow using our adjustments, equity value should increase. As valuation increases – substantially in some scenarios – Target may offer shares for cash. Since Target has already repurchased over $1 billion worth of stock (by end of 2023, estimated with reasonable accuracy), we estimate proceeds based on the issuance of the same number of shares already repurchased. If properly executed, there will be capital gains from the resale of already-repurchased stock. If properly executed, the net proceeds (as well as capital gains) may be sizeable).

24. One way we believe Target should **expedite debt paydown** is by issuing shares. Although this will dilute shares, we only model secondary offerings using shares already repurchased by the company in the share buyback program. Target will have repurchased over 20 million shares by the end of 2020.

Scenario 1: Proceeds From the Sale of Common Stock Each Year From 2024 - 2027	Actual			Mecca Partners Forecast				
	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Number of Shares Repurchased (Proposed Sale of Common Stock)			11.82	9.82	(5.41)	(5.41)	(5.41)	(5.41)
Estimated Price	50	56	60	61	67	70	85	98
Cost of Repurchased Shares (Proceeds from Potential Issuance of Common Stock)			$ 709	$ 599	$ (363)	$ (379)	$ (462)	$ (528)
Gain on Sale of Common Stock Previously Repurchased					$ 36	$ 52	$ 135	$ 201
Capital Gains Tax					$ 7	$ 10	$ 27	$ 40
Excess Cash Provided by Financing Activity					$ 29	$ 42	$ 108	$ 161
Total Cash Provided by Financing Activity								$ 1,732

- We estimate proceeds based only on the issuance of the same number of shares repurchased. It is possible, but exhibits diminishing return, to issue more shares and bring in even more proceeds.
- Target may issue shares in several ways. The first, above, is by issuing one quarter of repurchased shares each year for four years. This is not perfectly ideal because of transaction costs, but may signal to the market debt paydown is accelerating and may accelerate more. If the market responds positively and other deliverables we have delineated come to fruition, equity value may rise; and therefor, proceeds may be higher. Alternatively, dilution may be limited if proceeds are sufficient at higher prices.
- Another way to offer shares is in one lump sum. This may be advantageous if our deliverables in this report come to fruition and the market reacts. The market may also react positively from the offering and if it knows the intent is for debt extinguishment. Alternatively, dilution may be limited if proceeds are sufficient at higher prices. One way this may unfold is the following:

Scenario 2: Proceeds From the Sale of Common Stock in one Offering in 2027	Actual			Mecca Partners Forecast				
	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Number of Shares Sold (Resale of Common Stock Repurchased)			11.82	9.82				(21.64)
Estimated Price	50	56	60	61	67	70	85	95
Cost of Purchase (Proceeds from Potential Issuance of Common Stock)	$ -	$ -	$ 709	$ 599	$ -	$ -	-	(2,055)
Gain on Sale								$ 747
Capital Gains Tax								$ 149
Excess Cash Provided by Financing Activity								$ 598
Total Cash Provided by Financing Activity								$ 2,055

25. Another way to **expedite debt paydown is by suspending dividends**.

- Target may suspend dividends and sustainability-CAPEX to pay down debt until debt is reduced. Target may suspend some or all portions of sustainability-CAPEX permanently.

Annual Cash Flow Available for Debt Extinguishment Currently Used in Other Activities	Actual			Mecca Partners Forecast				
	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Dividends	$ -	$ -	$ -	120	120	120	120	120
Share Repurchases (Sales)		$ -	$ 709	$ 598	$ (359)	$ (376)	$ (408)	$ (408)
Sustainability CAPEX	$ 292	$ 338	$ 344	350	350	350	350	350
Potential Cash Used for Debt Retirement	$ 292	$ 338	$ (366)	$ (128)	$ 829	$ 846	$ 878	$ 878

- Note: Dividends were inaugurated in 2023 and FY 2023 dividends estimate is forecasted with reasonable accuracy (3/4 reported quarters).

26. As shown above, there is substantial cash available each year if directed appropriately and substantial cash (potentially) available from proceeds from common stock sales. Portions of debt may be extinguished swiftly. Below, we delineate how net leverage may improve in our two scenarios above (with no other debt paydown action such as use of operating cash flow, independent of CAPEX).

Leverage Will Improve if Target Follows Our Deliverables	Actual			Mecca Partners Forecast				
	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
EBITDA	$ 2,024	$ 2,146	$ 2,061	$ 2,043	$ 2,164	$ 2,202	$ 2,180	$ 2,202
Long Term Debt (Scenario 1)	$ 10,162	$ 9,439	$ 9,242	$ 9,200	$ 8,367	$ 7,518	$ 6,586	$ 5,588
Leverage	5.0x	4.4x	4.5x	4.5x	3.9x	3.4x	3.0x	2.5x
Long Term Debt (Scenario 2)	$ 10,162	$ 9,439	$ 9,242	$ 9,200	$ 8,730	$ 8,260	$ 7,790	$ 5,265
Leverage	5.0x	4.4x	4.5x	4.5x	4.0x	3.8x	3.6x	2.4x

- Recall: Comparable # 7 has net leverage of 3.1x and, as we delineated on page 3, substantially higher valuation multiples.

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27. **We believe the dividend growth rate and frequency of rate increases may improve and bring the stock real longer-term prospects of perpetual outperformance once debt is extinguished and CAPEX is reeled in to responsible levels. Cash flow would be retained and optionality with regard to the use of cash may widen. We believe the best way is to navigate Target, based on our deliverables in this report, toward a position where the dividend may grow for a very long time. Dividends for 2023 are expected to total a $120 million cost. There is $1.6 billion in adjusted unlevered free cash flow. If the company can get debt-free, big portions of cash – much bigger than $120 million – may be used in dividend payments to shareholders. Additionally, portions from proceeds from sale of stock may be used in dividend payments to shareholders. Here, we delineate a scenario with no debt and all excess cash flow – gained from the deliverables in this report – is spent on dividends (so even in this extreme example, there is still cash not being paid out in the form of dividends). In this final line items – the potential special dividend – we assume proceeds from secondary offerings are not used to pay down debt, but to instead pay a special dividend to shareholders (and we use secondary offering scenario # 2 in the scenario below). This is without modeling organic growth. Both options, the expedition of debt paydown, and the payment of dividends, are appropriate if Target is reducing debt each year (recall: we delineated a scenario where Target issues shares in a lump sum offering in 2027).**

Dividend per Share	**$ 1.00**
Dividend Yield, Aug 2023	**1.81%**
Dividends	**$ 119**
ADD: excess FCF after the full extinguishment of debt	**$ 300**
ADD: excess FCF and UFCF available if sustainability CAPEX is fully discontinued	**$ 350**
ADD: midpoint of cash used in 2022 and 2023 share repurchases	**$ 653**
Adjusted Dividends	**$1,422**
Adjusted Dividends per Share	**$ 12**
Adujsted Yield (based on current stock price of $55)	**22%**
Cash Provided by Financing Activity (re-sale of repurchased common stock)	**$2,055**
Special Dividend (optional and only if opting not to expedite debt extinguighment)	**$15.75**
Special Dividend Yield (optional and only if opting not to expedite debt extinguighment)	**28%**

- Note: the special dividend yield is derived using the share count after accounting for secondary offerings.

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- **The proposed performance allocation is 20%.**
- **Considering the sum of assets required to take controlling interest in the target, the Firm is prepared to negotiate the management fee for this thesis. The Firm requires a management fee to operate the general partner, advisor, and fund. This management fee is a proposed 2% for Mecca Partners strategies, but may be much less for a partnership formed for the purpose of attaining controlling interest in the target. Therefor, the firm wishes to maintain the performance allocation of 20% and may significantly lower the 2% management fee.**

OUR PRICE TARGETS: Target Company's Current Price: $55 or $6.6 billion equity value.

1. Target Company Price Target (page 2): $73 or $8.2 billion equity value (1).
2. Target Company Price Target (page 5): $81 or $9.8 billion equity value (1).
3. Target Company Price Target (page 5): $69 or $8.2 billion equity value (2).
4. Target Company Price Target (page 7): $98 or $11.6 billion equity value (1).
5. Target Company Price Target (page 7): $134 or $15.9 billion equity value (2).
6. Target Company Price Target (page 7): $170 or $20.1 billion equity value (3).
7. Target Company Price Target (page 8): $118 or $14.0 billion equity value (1).
8. Target Company Price Target (page 8): $89 or $14.0 billion equity value (2).
9. Target Company Price Target (page 8): $108 or $12.8 billion equity value (3).
10. Target Company Price Target (page 8): $127 or $15.1 billion equity value (4).
11. Target Company Price Target (page 8): $169 or $20.0 billion equity value (5).
12. Target Company Price Target (page 10): $64 or $8.4 billion equity value (1).
13. Target Company Price Target (page 10): $88 or $11.5 billion equity value (2).
14. Target Company Price Target (page 10): $77 or $10.0 billion equity value (3).
15. Target Company Price Target (page 10): $101 or $13.1 billion equity value (4).
16. Target Company Price Target (page 10): $90 or $11.8 billion equity value (5).
17. Target Company Price Target (page 10): $124 or $16.1 billion equity value (6).
18. Target Company Price Target (page 10): $138 or $18.0 billion equity value (7).
19. Target Company Price Target (page 10): $179 or $23.4 billion equity value (8).
20. Target Company Price Target (page 11): $112 or $14.7 billion equity value (1).
21. Target Company Price Target (page 11): $115 or $15.0 billion equity value (2).
22. Target Company Price Target (page 11): $149 or $19.5 billion equity value (3).
23. Target Company Price Target (page 11): $142 or $16.9 billion equity value (4).
24. Target Company Price Target (page 11): $149 or $19.5 billion equity value (5).

*calculations based on changes in share count may differ despite similar equity value.