

Analyzing Value Through Market Multiples: Gold Kist Case Study

by

Doug Sterkel, Managing Director

Bill Goodbar, Managing Director

Last month Gold Kist announced its intention to convert from cooperative to a holding company structure that will issue public shares. The company has filed to trade under the ticker GKI and join a short list of public large capitalization (over \$1 billion) protein companies. To date, an offer price has not been set. The underwriters of the offering will gauge the market's demand for such an offering, and advise the company on how to price it. In documents filed with the Securities and Exchange Commission, a price range is indicated, with a mid-point of \$15 per share. Although the price will likely be different at the time of offer, an analysis of the implied value using this midpoint will be close to the mark. Our analysis sought to compare the implied value of Gold Kist with investors current sentiment towards the sector.

For comparison, we selected a set of public companies thought to be generally comparable: Hormel Foods, Pilgrim's Pride, Sanderson Farms, Seaboard, Smithfield Foods, and Tyson Foods. Using this "Protein Company" set, we made comparisons to Gold Kist.

Assuming the \$15 per share for the Initial Public Offering, 18 million shares sold¹ and a total of 32 million shares outstanding, an equity value of \$750.0 million is estimated. In filings with the Securities and Exchange Commission (SEC), the company estimates that net Debt will be \$205.1 million. Summing these, we arrive at an enterprise value of

Estimated Enterprise Value	
Proposed offer price (range mid-point)	\$15.0
(x) Common shares	50,000,000
	<u>750,000,000</u>
(+) net Debt	205,144,605
(=) Enterprise Value	<u>955,144,605</u>
EV per share	\$19.1

\$955.1 million for Gold Kist.

Investors ascribe value to a company based on its ability to generate cash

earnings into the future. Approaching this from the opposite direction, we can measure the value as a multiple of historical cash flow. We analyzed the ratio of Enterprise Value to Earnings Before Interest Taxes Depreciation and Amortization – a good proxy for operating cash flow (EV / EBITDA) both for Gold Kist and the set of comparable Protein Companies.

Based on the EBITDA for the twelve months ended March 2004, Gold Kist is projected to hit the market at a multiple of approximately 4.9 x. As of the start of July, our Protein Company set was trading at an average multiple of 9.0 x.

Does this difference between the implied Gold Kist multiple and the multiple of the Comparable Companies set mean that the offer will be priced low? Before reaching that conclusion, also consider the current state of Gold Kist's market. Pricing for chicken products has been favorable recently, but this is a volatile commodity market, and that volatility is reflected in the company's cash flow. As a point of comparison, we performed the same analysis using a five year median EBITDA for Gold Kist, calculating a multiple of 12.8x. This implies that a price of \$15 per share may be above market. However, for demonstration purposes, we maintain our simplified approach, using the EBITDA of the latest twelve months. If we assumed that the Gold Kist market value would re-align after the IPO to a multiple equal to the Comparable Companies, we would expect to see a price appreciation of 108%.

Before establishing any price target or post-IPO pop in excess of 100%, it would be wise to recognize that an array of firm specific factors exist that will effect demand, and therefore price & return. In the company's SEC filing, several factors that will effect the IPO price are highlighted, including:

- history of and prospects for the company, and the industry,
- an assessment of management,
- an assessment of past and present operations,
- prospects for the firm in the future,
- the position of Gold Kist in its market.

All of these factors and more will effect the company's performance that will in turn be reflected in the stock price and return to investors.

Ratio of EV / EBITDA		
Gold Kist- LTM EBITDA	Gold Kist-5 Yr Median EBITDA	Protein Company Set
4.9x	12.8x	9.0x
Two Scenarios of Realigned Equity Value		
Based on Latest 12 Months EBITDA		
Implied EV Based on 9x EBITDA	1,766,070,000	
(-) net Debt	205,144,605	
(=) Equity Value	<u>1,560,925,395</u>	
Value per Share	\$31.2	
Based on 5 Year Median EBITDA		
Implied EV Based on 9x EBITDA	671,400,000	
(-) net Debt	205,144,605	
(=) Equity Value	<u>466,255,395</u>	
Value per Share	\$9.3	



¹ Shares excludes the underwriter's over-allotment

If you would like to discuss this material, or any other issues related to corporate finance and the agribusiness & food sector, feel free to contact Bill Goodbar (Goodbar@agricapital.com) or Doug Sterkel (sterkel@agricapital.com) by phone or e-mail.

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