**Valuation Case Study – Part 2**

In this case study, you’ll analyze ConAgra Food’s $4.9 billion bid for Ralcorp Holdings and determine whether or not Ralcorp was correct in rejecting the offer.

Announced on May 4, 2011, ConAgra’s bid represented a play to invest more heavily in private-label products and to consolidate product lines within the food & beverage industry.

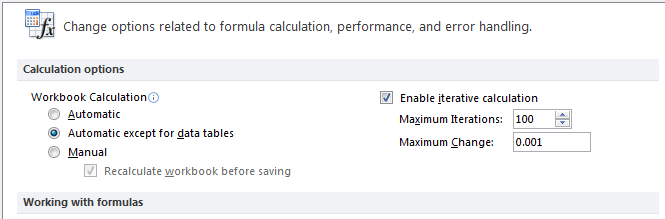
ConAgra is a leading consumer food company with a focus in the generic products (private-label) segment; Ralcorp has diversified business lines, including pasta, generic cereals, snacks, bakery, and the Post line of cereals.

After a previous rejection by Ralcorp, ConAgra made another bid on May 4, offering $86.00 per share (a 32% premium above Ralcorp’s share price on March 21 – the day before its first approach) in a bid valued at $4.9 billion.

In part 2 of this case study, you’ll fill out information for the rest of the public comps, create a set of precedent transactions, build a DCF analysis, and answer the discussion questions.

**Excel Setup – IMPORTANT**

In this model we may encounter circular references. To ensure that they work correctly and that Excel does not crash, please go to Options (Alt + T + O) and then the Calculations tab in 2003 or the Formulas menu in 2007/2010, and make sure your menu looks like this:



If you do **NOT** have “Enable iterative calculations” checked you will run into problems in most Excel models, including this one.

**Part 2 – Public Comps Analysis**

Complete the 5 public comps using the following assumptions:

* Use the included links to each company’s filings (“Public-Comps-Links.txt”) and the included equity research for the required numbers.
* Where equity research does not exist, **you will** **make your own estimates** using the following assumptions:
  + **JM Smucker** – Assume 10.0% revenue growth in 9/30/2011 and 8.0% revenue growth in 9/30/2012; assume 17.4% EBITDA margins in 9/30/2011 and 9/30/2012 (all based on historical averages).
  + **Seaboard Corporation** – Assume 8.5% revenue growth in 9/30/2011 and 7.0% revenue growth in 9/30/2012; assume 6.7% EBITDA margins in 9/30/2011 and 9/30/2012.
  + **United Natural Foods** – Assume 5.7% revenue growth in 9/30/2011 and 4.0% revenue growth in 9/30/2012; assume 3.7% EBITDA margins in 9/30/2011 and 9/30/2012.
* All revenue and EBITDA figures should be **calendarized** to end on September 30 rather than ending on each company’s normal fiscal year end.

**Part 2 – Precedent Transactions**

Use the included links to press releases and deal profiles (“Precedent-Transactions-Links”) as well as the PDF file (Folgers deal info. listed on page 7) to complete the M&A comps.

**Do not worry about making everything precise – just use the numbers listed in press releases. You don’t have time to be scientific in real case studies**.

Also do not worry about getting both enterprise value and equity value for everything – all you need for multiples is enterprise value.

**Part 2 – Discounted Cash Flow (DCF) Analysis**

Fill out the partially completed DCF analysis template using the Credit Suisse equity research report on Ralcorp that you received in Part 1 of this case study.

Use the following assumptions for the parts where CS does not provide numbers:

* For the taxes, use Ralcorp’s effective tax rate of 36% in all future periods.
* Make the decrease or increase in working capital a percent of revenue – do a 3-year average from 2008 – 2010 and use that percentage each year going forward.
* The WACC assumptions have already been provided in the WACC worksheet.
* Use a baseline Terminal EBITDA Multiple of 9x and a baseline Terminal Growth Rate of 4.0%.
* The sensitivities should range from a 6% to 10% Discount Rate, a 1% to 6% Terminal Growth Rate, and a 6x – 11x Terminal EBITDA Multiple.

**Part 2 – Discussion Questions**

Use your completed valuation and the valuation summary graph to answer the following questions:

1. Based on the numbers, was it correct for Ralcorp to reject ConAgra’s improved $86.00 / share offer?
2. If the offer price looks reasonable according to your valuation, why did Ralcorp still reject the offer?
3. If the offer price does *not* look reasonable according to your valuation, why would ConAgra low-ball them?
4. Would any other valuation methodologies have been appropriate to use here?
5. A few months after the rejected offer, [Ralcorp announced plans to spin off its Post Foods division](1.%09http:/blogs.barrons.com/stockstowatchtoday/2011/07/15/ralcorps-guidance-disappoints-wants-to-split-off-post/) – do you think that was a good idea? How could you assess whether or not they’re more valuable in separate parts or with all their divisions intact?