

Kraft Heinz Faces Class-Action Lawsuit

By David Kim, J.D. Candidate 2021 | March 12, 2019

On February 27, a proposed class-action lawsuit was made public alleging Kraft Heinz, CEO Bernardo Hees, and Brazilian private equity firm 3G Capital concealed injury to Kraft Heinz's brands and internal operations. The company is the [fifth-largest food and beverage company globally](#) and owns brands such as Capri Sun, Jell-O, Kool Aid, and Lunchables. The lawsuit comes on the heels of 3G's questionable sale of \$1.23 billion in stock sixth months prior to the processed foods company's abysmal earnings report late last month. Kraft Heinz Co took a \$15.4 billion write-down on its iconic Kraft and Oscar Mayer brands, signaling a broader shift by consumers to healthier and cheaper private-label products. In response, the company slashed its dividends and announced that it would be subject to an [accounting probe](#) by the U.S. Securities and Exchange Commission.

The lawsuit further alleges that the defendants acted in concert to allow 3G to sell the stock at artificially inflated prices. In response, Hees explained in an [interview with Reuters](#) that the transfer was made within a "window to liquidity" for an investor exiting a 3G fund.

Though shareholder lawsuits are common following unexpected bad news, it is no surprise that investors are raising suspicions around the sale—while the \$1.23 billion in stock was sold by 3G at a share price of \$59.83 each, other investors are left struggling to make sense of a 27.5% drop in stock price. The plunge is perhaps most surprising because of Kraft Heinz's other largest controlling shareholder—Warren Buffett's Berkshire Hathaway. Buffett's investing strategy has long emphasized timeless American classics, such as Coca-Cola and Wells Fargo, with all five of his largest positions being in American companies. However, with changing consumer tastes and an abundance of alternatives within the marketplace, it is unclear as to whether the hit will be limited to Kraft Heinz alone. Buffett and Berkshire Hathaway are not named as defendants in the case.

