

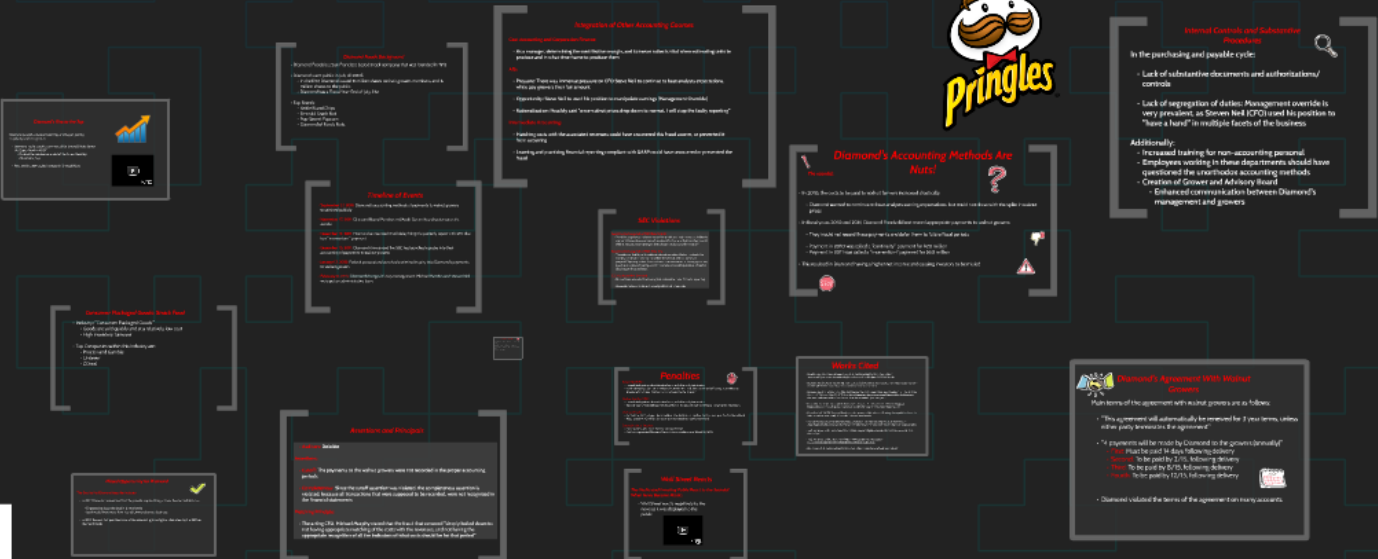


Diamond Foods Inc. Harvard Case Solution & Analysis





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Diamond Foods Background

- Diamond Foods is a San Francisco based snack company that was founded in 1912
- Diamond went public in July of 2005
 - In the IPO, Diamond issued 8 million shares to their grower-members, and 6 million shares to the public.
 - Diamond has a Fiscal Year-End of July 31st
- Top Brands:
 - Kettle Brand Chips
 - Emerald Snack Nut
 - Pop-Secret Popcorn
 - Diamond of Foods Nuts

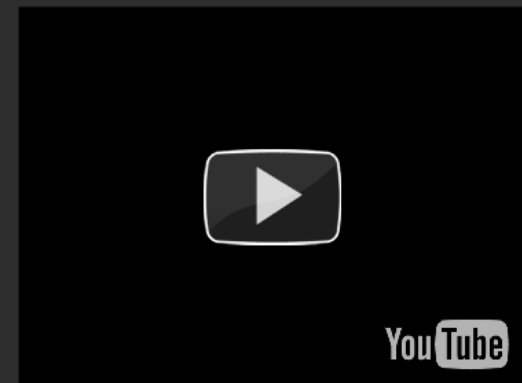
Consumer Packaged Goods: Snack Food

- Industry: "Consumer Packaged Goods"
 - Goods are sold quickly and at a relatively low cost
 - High inventory turnover
- Top Companies within this Industry are:
 - Proctor and Gamble
 - Unilever
 - L'Oreal

Diamond's Rise to the Top

Diamond posted consistent earnings and began gaining popularity and recognition:

- Diamond had a specific commercial for Emerald Nuts during the Super Bowl in 2007
 - Ranked the number one add of the Super Bowl by Advertising Age
- Resulted in a 68% sales increase in Emerald Nuts



Missed Opportunity for Diamond



The Deal to Put Diamond Atop the Industry:

- In 2011 Diamond announced that they would acquire Pringles from Proctor and Gamble
 - Expected to close the deal in June of 2012
 - Deal would have more than tripled Diamonds snack business
- In 2012 the deal fell apart because of the accounting investigation launched by the SEC on Diamond foods

Diamond's Accounting Methods Are Nuts!



The scandal:

- In 2010, the costs to be paid to walnut farmers increased drastically
 - Diamond wanted to continue to beat analysts earning expectations, but could not do so with the spike in walnut prices
- In fiscal years 2010 and 2011, Diamond Foods did not record appropriate payments to walnut growers
 - They would not record these payments and defer them to future fiscal periods
 - Payment in 2010 was called a "continuity" payment for \$20 million
 - Payment in 2011 was called a "momentum" payment for \$60 million
- This resulted in Diamond having a higher net income and causing investors to be misled





Diamond's Agreement With Walnut Growers

Main terms of the agreement with walnut growers are as follows:

- "This agreement will automatically be renewed for 3 year terms, unless either party terminates the agreement"
- "4 payments will be made by Diamond to the growers (annually)"
 - **First:** Must be paid 14 days following delivery
 - **Second:** To be paid by 2/15, following delivery
 - **Third:** To be paid by 8/15, following delivery
 - **Fourth:** To be paid by 12/15, following delivery



- Diamond violated the terms of the agreement on many accounts