

Mondelēz International's Diversification Strategy in 2017: Has Corporate Restructuring Benefited Shareholders?



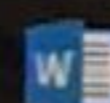
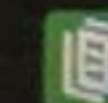
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John E. Gamble

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Mondelēz International was among the world's largest snack foods makers with seven billion-dollar brands including Cadbury, LU, Milka, Cadbury Dairy Milk, Trident, Nabisco, and Oreo. The company's brand portfolio in 2017 included another 44 well-known brands such as Triscuit, Toblerone, Wheat Thins, Ritz, Philadelphia, Nilla, BelVita, Chips Ahoy!, and Tang. Even though some of its brands had histories dating over 100 years, the company had come into existence only in 2012 after a corporate restructuring at Kraft Foods. Kraft Foods Inc. was the world's second-largest processed foods company in 2012 with annual revenues of more than \$54 billion in 2011. The company's global lineup of brands included Maxwell House, Oreo, Cadbury, Chips Ahoy!, Honey Maid, Dentyne, Velveeta, Cheez Whiz, Oscar Mayer, and Kraft. In all, the company had 12 brands with annual revenues exceeding \$1 billion each and approximately 80 brands that generated annual revenues of more than \$100 million each. The majority of Kraft Foods's brands held number-one market shares in their product categories, which created strong business units in North America, Europe, and developing markets.

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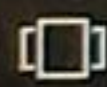
Cash Flow and Financial Position

Net cash provided by operating activities	2,838	3,728	3,562	6,410	3,923
Capital expenditures	1,224	1,514	1,642	1,622	1,610
Property, plant and equipment, net	8,229	8,362	9,827	10,247	10,010
Total assets	\$61,538	\$62,843	\$66,771	\$72,464	\$ 75,421
Long-term debt	13,217	14,557	13,821	14,431	15,519
Total Mondelez International shareholders' equity	25,161	28,012	27,750	32,373	32,276
Shares outstanding at year end	1,528	1,580	1,664	1,705	1,778

Per Share and Other Data

Book value per shares outstanding	\$ 16.47	\$ 17.73	\$ 16.68	\$ 18.99	\$ 18.15
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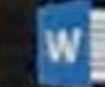
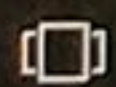


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EXHIBIT 1**Financial Summary for Mondelez International, Inc., 2012–2016 (in millions, except per share amounts)**

	2016	2015	2014	2013	2012
Continuing Operations					
Net revenues	\$25,923	\$29,636	\$34,244	\$35,299	\$35,015
Earnings from continuing operations, net of taxes	1,659	7,291	2,201	2,332	1,606
Net earnings attributable to Mondelez International:					
Per share, basic	1.07	4.49	1.29	1.30	0.90
Per share, diluted	1.05	4.44	1.28	1.29	0.88
Cash Flow and Financial Position					
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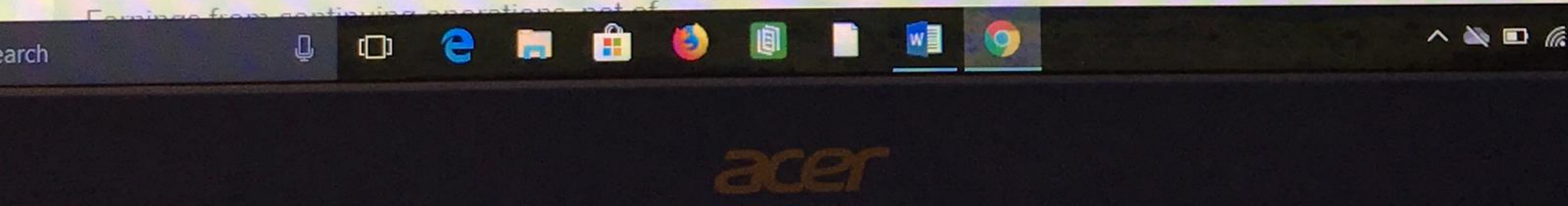
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However, the overall effectiveness of the corporate restructuring was questionable with the company's stock performance largely tracking the S&P 500 and its revenues in decline. The company's income from continuing operations grew from 2014 to 2015, but only because of a \$6.8 billion pretax gain from the spin-off of its coffee business in France. Absent a large asset sale in 2016, the company's operating income fell from \$8.8 billion in 2015 to \$2.6 billion in 2016. The company's total net revenues had declined from \$34.2 billion in 2014 to \$29.6 billion in 2015 and to \$25.9 billion in 2016. Drawing focus on the need for improved performance, activist investor William Ackman took a \$5.5 billion stake in the company in July 2015. Ackman believed that management should dramatically improve the company's performance or that the company should be a candidate for acquisition by a better-performing industry rival. Ackman increased his stake in the company in January 2017 to 6.4 percent of outstanding shares. A summary of Mondelez International's financial performance from 2012 to 2016 is presented in [Exhibit 1](#). The performance of the company's stock performance between July 2012 and July 2017 is presented in [Exhibit 2](#).

EXHIBIT 1

Financial Summary for Mondelez International, Inc., 2012–2016 (in millions, except per share amounts)

	2016	2015	2014	2013	2012
Continuing Operations					
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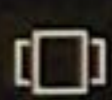
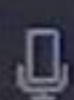
Even though Kraft Foods's business units produced strong profits, slow growth in the processed foods industry in North America and parts of Europe had restricted the company's ability to deliver increases in shareholder value. In fact, the trading range of the company's shares in 2011 was relatively unchanged from that in 2007 when it became an independent company after a spin-off by the Altria Group (formerly Philip Morris). Some of the lackluster growth in its share price could be attributed to the economic slowdown that began in 2007, but the company's upper management and its board believed the underlying cause of its poor market performance was a corporate strategy that was not sufficiently focused on growth.

The company implemented a corporate restructuring in 2012 to create a high-growth global snacks business and a high-margin North American grocery business. The new snacks-oriented company would include all of Kraft Foods's business units and brands in Europe and developing markets, plus its U.S. snacks business and would be named Mondelez International. *Mondelez* (pronounced mohn-dah-Leez) was a newly coined word that drew on "mundus," the Latin root for the word *world*, and "delez," which was meant to express "delicious." The creators of the name added "International" to capture the global nature of the business. The remainder of the company's Kraft Foods North American business unit would become known as Kraft Foods Group upon completion of the spin-off.

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By 2017, Mondelez International had successfully achieved its internationalization goals, with 76 percent of its revenues generated outside the United States in 2016. But the United States remained the company's largest market, making up 18 percent, 21 percent, and 24 percent of its sales in 2014, 2015, and 2016, respectively. No other country accounted for 10 percent of Mondelez's sales.

However, the overall effectiveness of the corporate restructuring was questionable with the company's stock



Per Share and Other Data

Book value per shares outstanding	\$ 16.47	\$ 17.73	\$ 16.68	\$ 18.99	\$ 18.15
Dividends declared per share	0.72	0.64	0.58	0.54	1.00
Common stock closing price at year end	44.33	44.84	36.33	35.30	25.45
Number of employees	90,000	99,000	104,000	107,000	110,000

Source: Mondelez International, Inc., 2016 10-K.

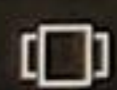
EXHIBIT 2

Performance of Mondelez International, Inc., Common Shares, July 2012–July 2017

(a) Trend in Mondelez International's Common Stock Price



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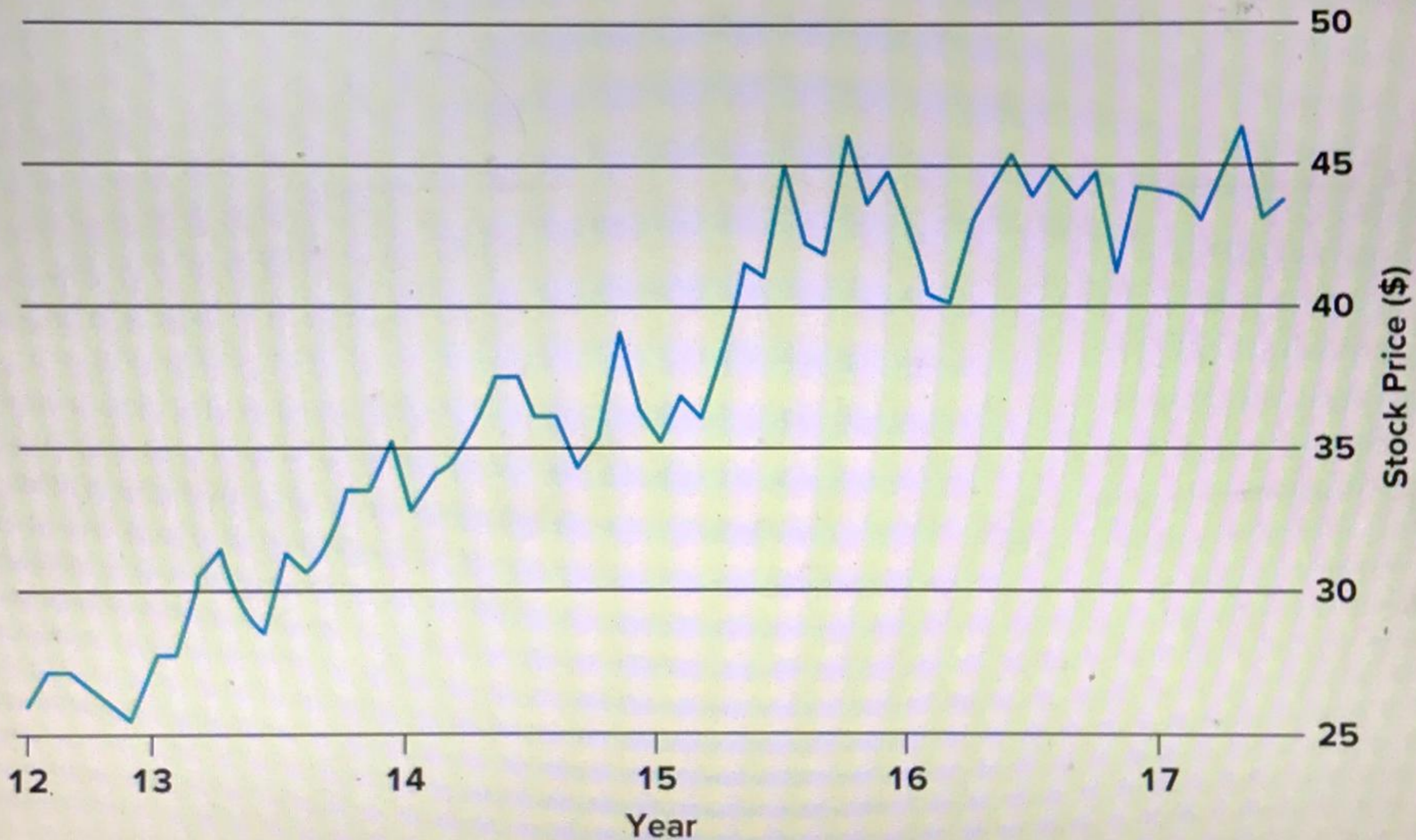


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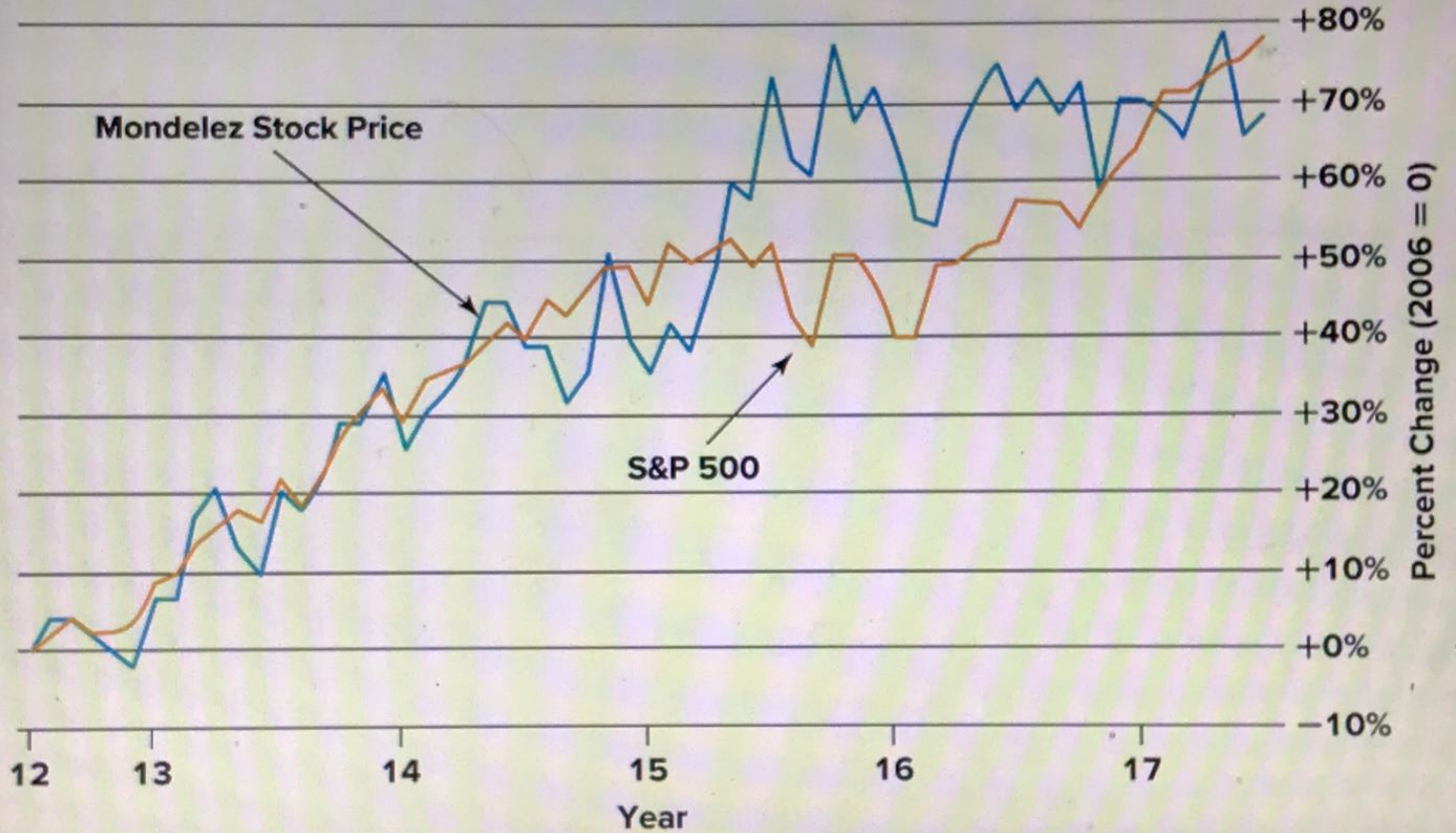
EXHIBIT 2

Performance of Mondelez International, Inc., Common Shares, July 2012–July 2017

(a) Trend in Mondelez International's Common Stock Price



(b) Performance of Mondelez International's Stock Price versus the S&P 500 Index



COMPANY HISTORY

Mondelēz International's marquee brands all had rich histories that began with the efforts of entrepreneurs who were inspired to launch new businesses that could provide consumers with value and support for their families. But Page 337

Mondelēz International, as a corporate entity, resulted from the 2012 spin-off of Kraft Foods's North American grocery business to shareholders. Under the terms of the proposal, each Kraft Foods Inc. shareholder received one share of the newly created Kraft Foods Group for every three shares of Kraft Foods Inc. owned by the shareholder. At the conclusion of the spin-off, Kraft Foods Inc. changed its name to Mondelēz International, Inc. and its ticker symbol became MDLZ. The KFT ticker symbol was retired after the transaction. Shares of the newly formed Page 338 Kraft Foods Group would trade under the ticker symbol KRFT.

Kraft Foods's broad portfolio of brands resulted from a series of mergers and acquisitions dating to 1928 when Kraft Cheese Company merged with Phenix Cheese Corporation, which was the maker of Philadelphia cream cheese. The proliferation of brands owned by Kraft accelerated in 1988 when Philip Morris Companies purchased Kraft for \$12.9 billion. Philip Morris's acquisition of Kraft was part of a corporate strategy focused on diversifying the company beyond its well-known cigarette business that included the Marlboro, Virginia Slims, Parliament, and Basic brands. At the time of the acquisition of Kraft, Philip Morris had already acquired brands such as Oscar Mayer, Tang, Jell-O, Crystal Light, and Post cereals through the 1985 acquisition of General Foods for \$5.6 billion. The addition of the company's Nabisco brands came about through Philip Morris's \$18.9 billion acquisition of that company in 2000. Kraft Foods's return to independence began in 2001, when Philip Morris (renamed Altria Group in 2003) began the divestiture of its non-tobacco-related businesses to protect those business assets from tobacco litigation. Philip Morris first sold an 11 percent interest in the company through a 2001 initial public offering (IPO) and then spun off its remaining interest in the company through a tax-free dividend to Altria Group shareholders in 2007.

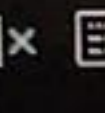
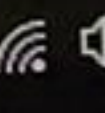
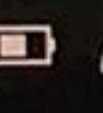
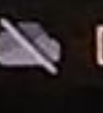
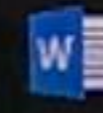
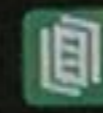


EXHIBIT 3
Financial Summary for Mondelēz International's Geographic Segments, 2014–2016 (in millions)
Net revenues

	2016	2015	2014
Latin America	\$ 3,392	\$ 4,988	\$ 5,153
AMEA	5,816	6,002	6,367
Europe	9,755	11,672	15,788
North America	<u>6,960</u>	<u>6,974</u>	<u>6,936</u>
Net revenues	\$25,923	\$29,636	\$34,244

Earnings from continuing operations before income taxes

	2016	2015	2014
Operating income:			
Latin America	\$ 271	\$ 485	\$ 475
AMEA	506	389	530
Europe	1,267	1,350	1,952
North America	1,078	1,105	922
Unrealized gains/(losses) on hedging activities	(94)	96	(112)
General corporate expenses	(291)	(383)	(317)
Amortization of intangibles	(176)	(181)	(206)
Gains on coffee business transactions and divestitures	9	6,822	—

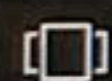
Mondelēz International's strategy was directed at exploiting its powerful brands of snack foods across the 165 country markets where its products were sold. Brands such as Oreo, Milka, Cadbury, Nabisco, Honey Maid, Trident, and Tang were popular in almost all markets where the company competed and provided for a range of products that cut across most all consumer snacking desires. For example, the company's product line included biscuits or cookies, chocolate, candy, gum, and beverages. The company's acquisitions were directed at expanding its brand portfolio into rapidly growing snack categories. The company's 2015 acquisition of Enjoy Life Foods added allergen-free and gluten-free chips and nut-free chocolate and seed and fruit products to its lineup of snacks.

The company's strategy sought to expand margins through programs to boost cost-efficiency in its manufacturing and supply chain activities. However, the company was committed to providing additional resources needed to expand marketing and sales capabilities in key markets, especially in emerging markets. The company announced its Sustainability 2020 goals in 2015 for reducing carbon emissions, reducing deforestation within its agricultural supply chain, focusing on water reduction efforts, and reducing packaging and manufacturing waste. The promotion of moderation in snacking was also an important element of the company's social responsibility and sustainability strategy.

The company was organized into four reportable segments based on geographic markets: North America; Latin America; Europe; and Asia, Middle East, and Africa (AMEA). Within each geographic reporting division were five product categories—biscuits (including cookies, crackers, and salted snacks), chocolate, gum and candy, beverages, and cheese and grocery. [Exhibit 3](#) presents a financial summary for its geographic segments for 2014 through 2016. The revenue contributions of each product category in each geographic region are presented in [Exhibit 4](#).

EXHIBIT 3

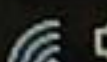
Financial Summary for Mondelēz International's Geographic Segments, 2014–2016 (in millions)



By 2017, Mondelez had operations in more than 80 countries and sold its products in 165 countries. The company exited the coffee business in 2015 with a financial transaction that combined its coffee brands with those of Netherlands-based D.E. Master Blenders to create a new company, Jacobs Douwe Egberts (JDE). Mondelez recorded a pretax gain of \$6.8 billion in 2015 and retained a 43.5 percent equity interest in the new company. The company's 2015 earnings from operations of \$7.3 billion included the \$6.8 billion pretax gain from the July 2015 spin-off of its Maxwell House, Jacobs, Gevalia, Carte Noire, Tassimo, and other coffee and hot beverage brands. The company's 43.5 percent interest in JDE was valued at \$4.5 billion in 2015. The company announced near year-end 2015 that it would exchange a portion of its equity ownership in JDE for an ownership position in coffee producer and brewing equipment maker, Keurig Green Mountain Inc. The Keurig transaction was completed in March 2016 and reduced Mondelez's ownership position in JDE to 26.5 percent in return for a 24.2 percent ownership stake in Keurig.

The company also made small acquisitions and divestitures in 2015 and 2016 that included the acquisition of U.S. snack foods company Enjoy Life Foods for \$81 million and the divestiture of its 50 percent interest in a Japanese coffee joint venture for \$225 million and the sale of local Finnish biscuit brands for \$16 million. Also in 2016, Mondelez International attempted to acquire Hershey to create the world's largest candy company. The nonprofit trust that controlled Hershey was ultimately able to block the buyout attempt.

MONDELEZ INTERNATIONAL'S CORPORATE STRATEGY AND BUSINESS SEGMENT PERFORMANCE IN 2017



Immediately after the spin-off from Philip Morris, Kraft Foods acquired Groupe Danone's European cracker and cookie business for \$7.6 billion. In 2008, Kraft Foods spun off its Post cereals business as a tax-free distribution to shareholders. Post cereals included brands such as Honey Bunches of Oats, Pebbles, Shredded Wheat, Selects, Grape Nuts, and Honeycomb and recorded sales of \$1.1 billion in 2007. Kraft Foods sold its North American pizza business to Nestlé in 2010 for \$3.7 billion. Kraft's frozen pizza brands included the DiGiorno, Tombstone, and Jack's brands in the United States and the Delissio brand in Canada. The company's divested pizza business also produced and distributed California Pizza Kitchen-branded frozen pizzas under license. Also in 2010, Kraft Foods spent \$18.5 billion to acquire United Kingdom-based Cadbury, which was the maker of Cadbury chocolates, Halls cough drops, Clorets breath-freshening gum, and Trident, Dentyne, and Stride chewing gum.

By 2011, Kraft Foods remained the world's second-largest food company, with revenues of \$54.4 billion. The 2012 restructuring was designed to create a high-growth global snacks business and a high-margin North American grocery business. Kraft Foods Group began its operations with about \$19 billion in 2011 revenues and retained all of the company's business operations and brands in North America such as Kraft macaroni and cheese dinner, Capri Sun, and Miracle Whip salad dressing. Mondelez International began its operations with about \$35.8 billion in 2011 revenues and included the U.S. Snacks divisions and all Kraft Foods businesses in Europe and developing markets in Eastern Europe, Asia/Pacific, Middle East/Africa, and South America.

It was expected that the new company could achieve industry-leading growth by competing in high-growth categories with ample opportunities for product innovation. Mondelez would focus on its powerful, iconic global brands such as Cadbury, Milka, Toblerone, Oreo, LU, Tassimo, and Jacobs in all international markets, while selectively promoting regional brands with strong growth potential outside the region. The company was expected to pay modest dividends, but make substantial investments in product development and promotional campaigns.

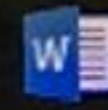
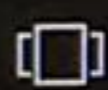
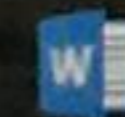
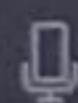


EXHIBIT 4**Mondelēz International's Net Revenues by Product Category and Geographic Region, 2014–2016 (in millions)****For the Year Ended December 31, 2016**

	Latin America	AMEA	Europe	North America	Total
Biscuits	\$ 734	\$ 1,588	\$ 2,703	\$5,565	\$10,590
Chocolate	743	1,901	4,840	255	7,739
Gum & Candy	938	953	916	1,140	3,947
Beverages	657	611	177	—	1,445
Cheese & Grocery	<u>320</u>	<u>763</u>	<u>1,119</u>	<u>—</u>	<u>2,202</u>
Total net revenues	\$3,392	\$ 5,816	\$ 9,755	\$6,960	\$25,923

For the Year Ended December 31, 2015

	Latin America	AMEA	Europe	North America	Total
Biscuits	\$1,605	\$ 1,539	\$ 2,680	\$5,569	\$ 11,393
Chocolate	840	1,928	5,050	256	8,074
Gum & Candy	1,091	1,003	1,015	1,149	4,258



Depreciation expense

	2016	2015	2014
Latin America	\$ 92	\$94	\$118
AMEA	161	155	154
Europe	253	299	407
North America	<u>141</u>	<u>165</u>	<u>174</u>
Total depreciation expense	\$ 647	\$713	\$ 853

Capital expenditures

	2016	2015	2014
Latin America	\$ 321	\$ 354	\$ 460
AMEA	349	381	451
Europe	294	517	553
North America	<u>260</u>	<u>262</u>	<u>178</u>
Total capital expenditures	\$ 1,224	\$ 1,514	\$ 1,642

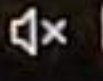
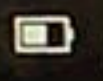
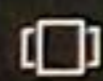
Source: Mondelez International, Inc., 2016 10-K.

EXHIBIT 4**Mondelez International's Net Revenues by Product Category and Geographic Region, 2014–2016 (in millions)**

For the Year Ended December 31, 2016

Latin America AMEA Europe North America Total

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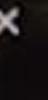
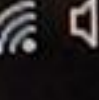
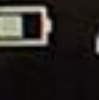
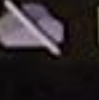
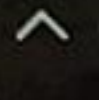
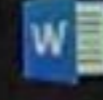
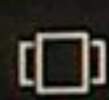
Latin America

In 2016, Mondelez International's Latin American division experienced a 32.0 percent decline in revenue because of the deconsolidation of its Venezuelan operations, unfavorable exchange rates and declining sales. The strong U.S. dollar relative to the Brazilian real, Mexican peso, Venezuelan bolivar, and Argentinean peso accounted for the majority of exchange rate losses. The sales decline was brought about by the elimination of selected low-margin products from its product mix and consumer resistance to price increases. The spin-off of the company's coffee brands also affected sales in Latin America in 2015. Mondelez's operating income decreased by 44.1 percent in 2016 as a result of higher raw material costs in addition to the factors that also contributed to the division's decline in revenue.

Asia, Middle East, Africa (AMEA)

Mondelez International's revenues in AMEA declined by \$186 million during 2016—primarily for the same reasons that caused the decline in net revenues in Latin America. Exchange rate losses related to the value of the U.S. dollar relative to the Australian dollar, Chinese yuan, Indian rupee, South African rand, Egyptian pound, Nigerian naira, and Philippine peso; consumer resistance to price increases; the elimination of low-margin products; and spin-off of coffee brands all contributed to the decline. Operating income for the segment increased by 30.1 percent between 2015 and 2016 because of lower manufacturing costs, higher net pricing, and the elimination of costs associated with its former coffee business. However, the cost reductions were partially offset by the division's higher raw material costs, decline in unit sales volume limiting scale economies, and unfavorable exchange rates.

Europe

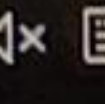
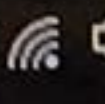
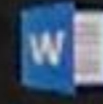
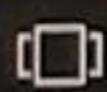


All of the five business segments competed in product markets that were characterized by strong competitive rivalry that required strong distribution and marketing skills to attract consumer demand and ensure product availability in supermarkets, discount clubs, mass merchandisers, convenience stores, drug stores, and retail food locations serviced by its food distribution operations. Brand building, consumer health and wellness, and advertising and promotions were all critical to success in the industry. In fact, Mondelēz's ability to compete against lower-priced branded and store-brand products was a function of its ability to successfully differentiate its products from lower-priced alternatives. Also, differentiation was essential to retaining shelf space as the retail grocery industry consolidated and provided retailers with greater leverage in negotiations with food manufacturers. The company's successful differentiation of its products had also allowed it to achieve organic revenue growth of 1.3 percent in 2016 and 1.4 percent in 2015 through net price increases.

The company's processed foods divisions had experienced cost increases as inflationary forces had led to higher prices for commodities used in the manufacture of its products such as coffee, cocoa, oils, nuts, and sugar. However, Mondelēz utilized commodity hedging to protect against spikes in ingredient costs. In addition, price increases made possible by its strong product differentiation had more than offset the increased cost of commodity inputs in 2015. Also, the production of Mondelēz International's products was regulated by the U.S. Food and Drug Administration in the United States, and similar organizations in the 165 countries where its products were sold. The company's packaging practices were also regulated by governmental agencies in the United States and the European Union.

Latin America

In 2016, Mondelēz International's Latin American division experienced a 32.0 percent decline in revenue because of the deconsolidation of its Venezuelan operations, unfavorable exchange rates and declining sales. The strong U.S. dollar



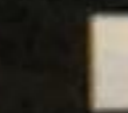
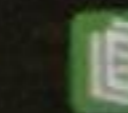
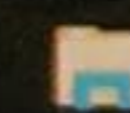
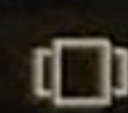
Unrealized gains/(losses) on hedging activities	(94)	96	(112)
General corporate expenses	(291)	(383)	(317)
Amortization of intangibles	(176)	(181)	(206)
Gains on coffee business transactions and divestitures	9	6,822	—
Loss on deconsolidation of Venezuela	—	(778)	—
Acquisition-related costs	____(1)	____(8)	____(2)
Operating income	2,569	8,897	3,242
Interest and other expense, net	____(1,115)	____(1,013)	____(688)
Earnings from continuing operations before income taxes	\$ 1,454	\$ 7,884	\$ 2,554

Total assets

	2016	2015	2014
Latin America	\$ 5,156	\$ 4,673	6,470
AMEA	10,031	10,460	10,549
Europe	19,934	21,026	27,240
North America	20,694	21,175	21,287
Equity method investments	5,585	5,387	662
Unallocated assets	____138	____122	____563
Total assets	\$ 61,538	\$62,843	\$ 66,771

Depreciation expense

2016 2015 2014



For the Year Ended December 31, 2015

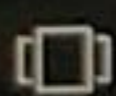
	Latin America	AMEA	Europe	North America	Total
Biscuits	\$1,605	\$ 1,539	\$ 2,680	\$5,569	\$ 11,393
Chocolate	840	1,928	5,050	256	8,074
Gum & Candy	1,091	1,003	1,015	1,149	4,258
Beverages	767	730	1,763	—	3,260
Cheese & Grocery	<u>685</u>	<u>802</u>	<u>1,164</u>	<u>—</u>	<u>2,651</u>
Total net revenues	\$4,988	\$6,002	\$11,672	\$ 6,974	\$29,636

For the Year Ended December 31, 2014

	Latin America	AMEA	Europe	North America	Total
Biscuits	\$1,322	\$ 1,442	\$ 3,259	\$5,486	\$ 11,509
Chocolate	1,054	2,073	5,997	296	9,420
Gum & Candy	1,176	1,098	1,232	1,154	4,660
Beverages	940	836	3,902	—	5,678
Cheese & Grocery	<u>661</u>	<u>918</u>	<u>1,398</u>	<u>—</u>	<u>2,977</u>
Total net revenues	\$ 5,153	\$6,367	\$15,788	\$6,936	\$34,244

Gains on divestitures	(9)	(6,822)	—
Loss on deconsolidation of Venezuela	—	778	—
Amortization of intangibles	<u>176</u>	<u>181</u>	<u>206</u>
Operating income	2,569	8,897	3,242
Interest and other expense, net	<u>1,115</u>	<u>1,013</u>	<u>688</u>
Earnings before income taxes	1,454	7,884	2,554
Provision for income taxes	(129)	593	353
Gain on equity method investment exchange	43	—	—
Equity method investment net earnings	<u>301</u>	<u>—</u>	<u>—</u>
Net earnings	1,669	7,291	2,201
Noncontrolling interest earnings	<u>(10)</u>	<u>(24)</u>	<u>(17)</u>
Net earnings attributable to Mondelez International	\$ 1,659	\$ 7,267	\$ 2,184
Per share data:			
Basic earnings per share attributable to Mondelez International	\$ 1.07	\$ 4.49	\$ 1.29
Diluted earnings per share attributable to Mondelez International	\$ 1.05	\$ 4.44	\$ 1.28

Source: Mondelez International, Inc., 2016 10-K.



Mondelēz International Chairwoman and CEO Irene Rosenfeld was bullish on the company's results for the first quarter of 2017. "We had a solid start to the year despite challenging market conditions. We delivered both top-line organic growth and strong margin expansion in the quarter, while also making critical investments for our future. We remain confident in and committed to our balanced strategy for both top- and bottom-line growth, continuing to focus on what we can control to deliver long-term value creation for our shareholders."¹

Although Mondelēz International's senior management believed the company's strategy was on track to deliver long-term value to shareholders, investors such as William Ackman were less convinced. In fact, some degree of its relatively strong stock performance since 2016 was a result of takeover rumors involving the company. In August 2016, Mondelēz shares rose when news that its attempt to acquire Hershey had failed, with investors seeing the failure as an opening for a takeover of Mondelēz by a larger food company.

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In December 2016, the company's share spiked by 12 percent after a rumor emerged that Kraft-Heinz was planning to acquire Mondelēz. Kraft-Heinz was the world's fifth largest food company at the time and had resulted from the 2015 merger between Kraft Foods Group and H. J. Heinz Company. Mondelēz International shares surged an additional 5 percent in February 2017 after the collapse of a planned merger between Kraft-Heinz and Unilever. The failure of the merger of Kraft-Heinz and Unilever gave investors stronger confidence that Kraft-Heinz would purchase the company and drove Mondelēz shares to an all-time high by May 2017. Going into the last half of 2017, Mondelēz management was confident in its corporate strategy and projected that the company would achieve at least 1 percent organic revenue growth and a 16 percent operating income margin to deliver double-digit growth in EPS by year-end.

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EXHIBIT 6

Mondelez International, Inc., Consolidated Balance Sheets, 2015–2016 (in millions)

	2016	2015
ASSETS		
Cash and cash equivalents	\$ 1,741	\$ 1,870
Trade receivables (net of allowances of \$58 at December 31, 2016, and \$54 at December 31, 2015)	2,611	2,634
Other receivables (net of allowances of \$93 at December 31, 2016, and \$109 at December 31, 2015)	859	1,212
Inventories, net	2,469	2,609
Other current assets	<u>800</u>	<u>633</u>
Total current assets	8,480	8,958
Property, plant and equipment, net	8,229	8,362
Goodwill	20,276	20,664
Intangible assets, net	18,101	18,768
Prepaid pension assets	159	69
Deferred income taxes	358	277
Equity method investments	5,585	5,387
Other assets	<u>350</u>	<u>358</u>
TOTAL ASSETS	\$61,538	\$62,843

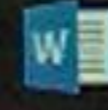
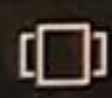
LIABILITIES

Short-term borrowings	\$ 2,531	\$ 236
Current portion of long-term debt	1,451	605
Accounts payable	5,318	4,890
Accrued marketing	1,745	1,634
Accrued employment costs	736	844
Other current liabilities	<u>2,636</u>	<u>2,713</u>
Total current liabilities	14,417	10,922
Long-term debt	13,217	14,557
Deferred income taxes	4,721	4,750
Accrued pension costs	2,014	2,183
Accrued postretirement health care costs	382	499
Other liabilities	<u>1,572</u>	<u>1,832</u>
TOTAL LIABILITIES	36,323	34,743

Commitments and Contingencies

EQUITY

Common Stock, no par value (5,000,000,000 shares authorized and 1,996,537,778 shares issued at December 31, 2016, and December 31, 2015)

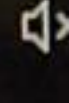
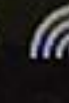
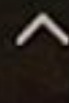
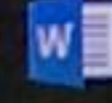
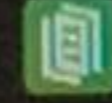
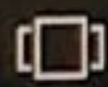


Europe

Segment revenues declined by 16.4 percent in Europe between 2015 and 2016 after the spin-off of the company's coffee brands and the effect of exchange rate adjustments, sales volume declines, and lower net pricing associated with price discounting. The segment's operating income declined by 6.1 percent in 2016 because of coffee deconsolidation costs and higher ingredient costs. Earlier in the decade, the segment had been among the company's most successful divisions, with traditionally strong revenue and operating income growth. The company held a number-one position in the snack foods industry in Europe, which was growing 1.4 times faster than the overall European processed foods industry. While growth in the snack foods industry in Europe was attractive, developing markets in Latin America and Asia offered the most attractive growth opportunities for Mondelez, Nestlé, and other food companies in 2017.

North America

Net revenues decreased by \$14 million or 0.2 percent between 2015 and 2016 because of an accounting calendar change, price discounts on biscuits, and declining sales volumes. The cost of price discounts on biscuits was partially offset by price increases on chocolate, gum, and candy. Operating income in North America decreased by 2.4 percent between 2015 and 2016 because of higher advertising and promotional costs, the year-over-year impact of the prior-year calendar change, higher ingredient costs, and lower net pricing. The division was able to limit its decrease in operating income through lower manufacturing costs, lower selling, general and administrative expenses, and the sale of an intangible asset.



MONDELEZ INTERNATIONAL'S PERFORMANCE IN MID-2017

Mondelēz International's results since its spin-off from Kraft Foods had been underwhelming with no sustained growth in revenues or profit measures when excluding the effects of one-time extraordinary items. Both revenues and net earnings before divestiture gains had been in decline since 2013—see [Exhibits 1](#) and [5](#). While trends in its revenues and operating income had been mostly negative, its stock had performed relatively well since the divestiture of its coffee brands. The divestiture and subsequent equity interest in the coffee business had resulted in some changes to its balance sheets. The company's balance sheets for 2015 and 2016 are presented in [Exhibit 6](#).

EXHIBIT 5 **Mondelēz International, Inc., Consolidated Statements of Earnings, 2014–2016 (in millions, except per share amounts)**

	2016	2015	2014
Net revenues	\$25,923	\$29,636	\$34,244
Cost of sales	<u>15,795</u>	<u>18,124</u>	<u>21,647</u>
Gross profit	10,128	11,512	12,597
Selling, general and administrative expenses	6,540	7,577	8,457
Asset impairment and exit costs	852	901	692
Gains on divestitures	(9)	(6,822)	—
Loss on deconsolidation of Venezuela	—	778	—
Amortization of intangibles	<u>176</u>	<u>181</u>	<u>206</u>

Common Stock, no par value (5,000,000,000 shares authorized and 1,996,537,778 shares issued at December 31, 2016, and December 31, 2015)	—	—
Additional paid-in capital	31,847	31,760
Retained earnings	21,149	20,700
Accumulated other comprehensive losses	(11,122)	(9,986)
Treasury stock, at cost (468,172,237 shares at December 31, 2016, and 416,504,624 shares at December 31, 2015)	<u>(16,713)</u>	<u>(14,462)</u>
Total Mondelēz International Shareholders' Equity	25,161	28,012
Noncontrolling interest	<u>54</u>	<u>88</u>
TOTAL EQUITY	<u>25,215</u>	<u>28,100</u>
TOTAL LIABILITIES AND EQUITY	\$61,538	\$62,843

Source: Mondelēz International, Inc., 2016 10-K.

The company's results for the first quarter of 2017 showed signs of stabilization with revenues for the first three months of the year declining by 0.6 percent and its operating profit for the first quarter of 2017 improving from \$722 million to \$840 million. Net earnings for the quarter ending March 31, 2017, of \$633 million were 13.6 percent higher than net earnings of \$554 in the same quarter the year prior. Mondelēz's improvements in operating income and net income were primarily the result of lower restructuring costs and the benefit of a settlement of a Cadbury tax dispute.