Kraft/Mondelēz Union Network

October 15, 2012

Kraft Foods Inc. splits in two…

Mondelēz International

10/11/2012 NASDAQ GS 4:00 PM ET

MDLZ $27.24 (0.0%)

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News Release

Mondelēz International Celebrates Its Launch as the Pre-eminent Player in Global Snacking

New Company Rings NASDAQ's Opening Bell as Part of Commemorating Events in More Than 80 Countries

NEW YORK – Oct. 3, 2012 – Mondelēz International, Inc., the world's pre-eminent maker of chocolate, biscuits, gum and candy, is commemorating its launch as a new company with events around the world. Joined by 14 employees from five continents, Chairman and CEO Irene Rosenfeld today rang the opening bell on The NASDAQ Global Select Market to mark the second day of trading under the company's new ticker symbol MDLZ.

Kraft Foods Inc., the maker of many of the world's most beloved food and beverage brands – including *Cadbury, Jacobs, LU, Milka, Nabisco, Oreo, Tang and Trident* – changed its name to Mondelēz International, Inc. after spinning-off its North American grocery business on Oct. 1. The company name is a newly coined word that evokes the idea of a delicious world filled with moments of joy.

"This is a very special day," Rosenfeld said. "We're making our debut as Mondelēz International and unleashing a global snacking powerhouse that's uniquely positioned to delight consumers. We're the world's greatest start-up. Out of the gate, we have $36 billion[1] in revenue and leading positions in every market in which we compete. What's more, our brands have been loved by consumers around the world for generations."

With surprising results

The long-announced split became official on October 1, but shareholders got a big surprise*: it is Mondelēz, not the new North American grocery company Kraft Foods Group (KRFT) which has inherited the former Kraft Foods Inc. enormous debt!*

Speaking in a conference call with investors on February, Kraft CFO David Brearton had clearly intimated that “Much of the cost [of the split] will be borne by Kraft Foods”; the debt would “migrate” to the grocery spinoff (see Kraft Union Network for March 28, 2012).

Information on the capital structure of the new grocery company was limited to a ‘Preliminary Information Statement’ published on April 12 on the website of the US Securities and Exchange Commission “subject to completion and amendment”. The “selected historical combined financial data” on page 48 of this document (the whole filing can be viewed on the SEC website here) show a mere USD 27 million for a company with USD 18.66 billion in revenue and equity valued at USD 16.59 billion – virtually no debt to speak of. The same document speaks of an additional USD 10 billion in *new* debt taken on in the course of 2012 in connection with the split. Where did it go? Presumably to the parent company which renamed itself Mondelēz on October 1 (more on this below).

Shares in the new companies were distributed to existing shareholders and began trading separately on October 2. But *only on October 5* did the SEC publish the “Unaudited Pro Forma Consolidated Financial Information and Accompanying Notes” for Mondelēz International, Inc.

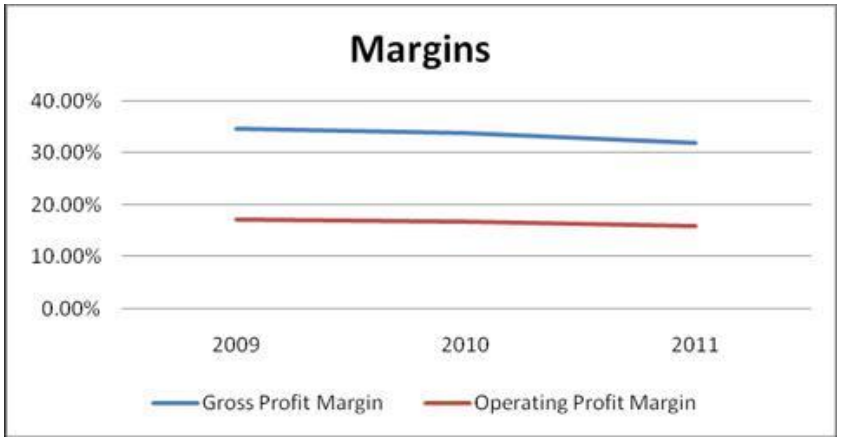
The figures are available here
http://sec.gov/Archives/edgar/data/1103982/000119312512416762/d420449dex991.htm

What they show on page 11 (‘pro forma’’ as of June 30) are long term debt of USD 22.09 billion with total equity of USD 25.29 billion – a debt-to-equity ratio of 87.3%, a substantial increase on the already substantial 76% which existed for the (whole) Kraft at the end of 2011. On December 31 2011, Kraft reported total debt of USD 23.095 billion, so virtually all of it has gone to Mondelēz – but *Mondelēz* will have only two-thirds of the revenue of the former Kraft Foods Inc. to support the debt!

This means that an enormous piece of the Mondelēz projected revenue of ca. USD 35 billion will be devoted to servicing the debt – it will be revenue in, interest out, leaving little or nothing for improved wages, pensions, investment in health, safety, and training etc., not to speak of research and development and capital expenditure. Kraft workers will pay the price through more attacks on wages and pensions, more redundancies, more outsourcing, more contract manufacturing and more attacks on trade union rights.

The April 12 filing on the North American grocery spinoff contains details of the USD 6 million in total 2012 target compensation for Kraft Foods Group Executive Officer John Cahill: USD 6 million for devising the finances of the split. Private equity veteran Cahill came to Kraft from Ripplewood Holdings, where he honed his financial engineering skills through a string of industrial catastrophes which nevertheless paid off handsomely for Ripplewood and its top managers (see More than a hint of the future…. in Kraft Union Network for December 9, 2011).

The split has given birth to 2 cash cows for investors The new Kraft Foods Group announced a target dividend of USD 2 per share, for a dividend ratio of between 4.3-4.5%, an increase of more than 50% over Kraft's 2.9% dividend for 2011 at a time when Kraft's grocery business has seen declining margins and gross profits:



Kraft Foods Group target dividend is also 50% higher than the industry average! Mondelēz will squeeze workers to pay the debt, Kraft Foods Group will squeeze workers to pay its aggressive target dividend.

Unions should be on high alert.

Mondelēz – a pig in a poke?

Pig in a poke - something that is bought or accepted without knowing its value or seeing it first
Oxford dictionaries

By September 17, shares in the two companies were already being traded "in advance" of the official launch on October 2. Yet, as we have seen, there was NO publicly available information on the capital structure (or anything else) of Mondelēz until the SEC filing of October 5, the last day of the first week of official trading in a major transnational food company!

The absence of concrete information appears to have had no appreciable impact on the enormous quantity of media attention paid to the new company – far from it. Analysts and financial columnists blogged, tweeted and issued an endless stream of ‘buy’, ‘hold’ and ‘sell’ messages accompanied by generally empty speculation and hype, much of it presumably fueled by investors seeking to raise or lower the share price according to their strategies.

One article alone stands out in identifying the real motor driving the year-long preparations to break up the company.

http://www.chicagobusiness.com/article/20120922/ISSUE01/309229985/krafts-split-up-is-an-oft-performed-play

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Kraft's split-up is an oft-performed play

By Joseph B. Cahill September 24, 2012

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As Kraft Foods Inc. prepares to cleave itself in two next Monday, I predict that it won't be the last time the company is repackaged to pique the fickle palate of Wall Street.

Financial engineers have been tinkering with Kraft since the 1920s, when a fellow named Thomas McInnerney persuaded New York bankers to underwrite a dairy industry roll-up. Among his dozens of deals was the 1930 acquisition of James L. Kraft's cheese company.

The short-term stock market high always fades.

Despite objections from Warren Buffett, also a big Kraft shareholder, Ms. Rosenfeld went all in to acquire Cadbury. The CEO boosted the offer price, sealing a $19.6 billion deal in January 2010 financed in part by the sale of Kraft's prized frozen-pizza business.

Then, in one of the fastest corporate U-turns I can recall, she decided a year and a half later to split Cadbury's worldwide snacks business (augmented by Kraft's Oreo and Chips Ahoy cookie lines) from the North American grocery businesses Kraft brought to the merger.

She's catering to the street's hunger for a new kind of "pure play" investment defined more by the financial profile of a business than its products or customers. Deerfield-based Mondelez International Inc., the snacks maker, is expected to grow rapidly in emerging markets around the world, while the grocery business, rechristened Kraft Foods Group Inc., is supposed to be a big-dividend-paying cash cow. Similar breakups are sweeping corporate America, including locally at Sara Lee Corp., Abbott Laboratories and Fortune Brands Inc.

The endless dealmaking reflects the uncomfortable truth for many big consumer products companies. They have all but given up on creating real economic value through new products and better marketing.

There's an upside in all this for the daisy chain of senior executives, investment bankers and hedge fund operators who collect fees, option payouts or quick trading profits on the deals. But the short-term stock market high always fades when the company's real-world results debunk the theory du jour. That process already has started at Kraft, which recently jolted investors by dialing down growth forecasts for the companies it's hatching in the split-up.

Long-term investors needn't worry as the Kraft offspring slide toward the food industry's slow-growing mean, however. Somewhere, I'm sure, a bright mind is noodling out a rationale for the next big deal.

Kraft Union Network
http://cms.iuf.org/?q=kraft_en
iuf@iuf.org