

Mondelez International (MDLZ) Earnings Report: Q4 2015 Conference Call Transcript

The following Mondelez International conference call took place on February 3, 2016, 10:00 AM ET. This is a transcript of that earnings call:

Company Participants

- Dexter Congbalay; Equity Residential; VP of IR
- Irene Rosenfeld; Equity Residential; Chairman & CEO
- Brian Gladden; Equity Residential; CFO

Other Participants

- Andrew Lazar; Barclays Capital; Analyst
- Christopher Growe; Stifel Nicolaus; Analyst
- Ken Goldman; JP Morgan; Analyst
- Bryan Spillane; BofA Merrill Lynch; Analyst
- Jason English; Goldman Sachs; Analyst
- Matthew Grainger; Morgan Stanley; Analyst
- Jonathan Feeney; Athlos Research; Analyst
- Eric Katzman; Deutsche Bank; Analyst
- Robert Moskow; Credit Suisse; Analyst
- Alexia Howard; Bernstein; Analyst
- Ken Zaslowsky; BMO; Analyst
- David Palmer; RBC; Analyst

MANAGEMENT DISCUSSION SECTION

Operator:

Welcome to Mondelez International's fourth-quarter 2015 year-end earnings conference call.

(Operator Instructions)

I would now like to turn the call over to Mr. Dexter Congbalay, Vice president of Investor Relations for Mondelez International. Please go ahead, sir.

Dexter Congbalay (VP of IR):

Good morning. Thanks for joining us. With me are Irene Rosenfeld, Chairman and CEO; and Brian Gladden, our CFO.

Earlier today we set out our earnings release and today's slides which are available on our website, Mondelezinternational.com.

As you know, during this call we will make forward-looking statements about the Company's performance. These statements are based on how we see things today. Actual results may differ materially due to risks and uncertainties. Please refer to the cautionary statements and risk factors contained in our 10-Q, and 10-K filings for more details on our forward-looking statements.

Some of today's prepared remarks include non-GAAP financial measures. You can find the GAAP to non-GAAP reconciliations within our earnings release and at the back of the slide presentation. With that, I will turn over the call to Irene.

Irene Rosenfeld (Chairman & CEO):

Thanks Dexter, and good morning. Over the past few years, we have laid out our vision to be the best snacking company in the world. Our advantage platform provides us with the potential to be among the fastest-growing consumer companies with substantial margin upside and strong EPS growth, while also returning significant cash to our shareholders. Since we began this journey three years ago in the face of a very challenging environment, we have taken several significant actions to further strengthen our advantage platform and create sustainable value for shareholders.

Our strong results in 2015 reflect our continued progress with the year playing out essentially as we planned with very strong margin expansion in our developed markets and more growth coming from our emerging markets.

In aggregate we delivered top-tier margin expansion and earnings growth while generating solid organic revenue growth and improved share performance. Specifically, organic-net revenue grew 3.7% driven by our pricing actions to recover higher commodity and currency-driven input costs. As Brian will cover in the detail shortly, we are deconsolidating our Venezuela operations, and this will have a material impact on our recent organic net-revenue growth as it does to our global category growth.

Adjusted gross margin increased 230 basis points to 38.9% fueled by world-class net productivity. We expanded adjusted operating income margin by 170 basis points to 13.7% while continuing to build our advantage platform through increased advertising and consumer support.

Finally, adjusted EPS increased 19% on a constant-currency basis, driven by strong operating gains. These results reflect the solid execution of our transformation agenda.

First, we further focused our portfolio in our advantage snacks categories. We combined our coffee business with D.E Master Blenders to create Jacobs Douwe Egberts, the largest pure play coffee business in the world, and the proposed current transaction will further enhance our position in the global coffee category. We also strengthened our snacks portfolio by acquiring and integrating Kinh Do's biscuit business in Vietnam and Enjoy Life Foods, a leader in the fast-growing free-from snacks in the US.

Second, we continue to aggressively reduce costs. We are now beginning to see the benefits of our supply chain reinvention as we upgrade our manufacturing network and install more efficient and more flexible lines of the future. For the year, we delivered net productivity of more than 3.5% of cost of goods sold or nearly \$700 million. That is world class and another record year.

We also reduced overheads by leveraging zero-based budgeting and other tools, and we are beginning to institutionalize our approach to cost management. These savings enabled us to expand margins and provide the necessary fuel to accelerate growth.

During the year, we stepped up A&C investment behind our power brands and innovation platforms. This enabled us to continue to strengthen brand equities and back up some of our pricing actions. On the top line, as we've made these investments we have seen improvement in our volume trends, revenue growth and market-share performance as the year progressed.

We actively monitor the payback of these investments and we will continue to proactively adjust our spending based on actual returns. On the bottom line, by pricing to recover input cost inflation, we have protected profitability allowing our net productivity gains to flow through to gross margin. In short, like

many smart companies, we are selectively investing through the downturn in emerging markets with continued investments in A&C and route-to-market so we can benefit disproportionately as these markets recover.

Finally, we continue to strengthen our financial profile. We generated strong free cash flow, lowered our cost of debt and returned \$4.6 billion to our shareholders. So, as you can see, we made good progress on many fronts this year. I am indebted to our colleagues around the world for their unwavering dedication, hard work and commitment to delivering these results especially in the face of such massive change.

With that as background, let's take a closer look at our 2015 topline results. For the full year, organic net revenue growth was 3.7%. This included a 90 basis-point headwind related to our strategic actions to improve revenue mix.

As expected, higher prices were the key driver contributing about 7 percentage points of growth. While we fully expected significant pricing this year, the impact of a strengthening dollar on inflation in emerging markets, especially in the second half, forced us to price even more. While this helped protect margins, it also tempered our vol/mix improvement. As Brian will discuss in a moment, our organic revenue growth, as I said, is adjusted for the deconsolidation of Venezuela, was 1.4%.

We are especially pleased that our power brands grew more than 5%, well above the rate of the overall Company, as a result of targeted A&C support. As expected, developed markets which comprise about 60% of our revenue, declined less than 1% as we focused our efforts on cost reduction in this slower growth environment. Emerging markets grew double digits as we took a more balanced approach by reducing costs and stepping up investment in our brands and capabilities. This allowed us to protect our leading share positions in the near term while remaining ready to capitalize on their long-term potential.

Turning now to our results by region. While pricing was the main driver of our revenue growth, most of the pricing occurred in Latin America and EEMEA. For the full year, Latin America was up nearly 20%, driven by pricing in response to currency-driven inflation, especially in Venezuela. Excluding Venezuela, Latin America was up almost 7%. Brazil was up mid-single digits, as we priced to recover input-cost inflation driven by the weakening real.

Oreo continued its strong momentum behind increased A&C investment. However, growth in the second half slowed to low-single digits as the macro environment there deteriorated. Looking ahead, we do not expect conditions to improve in Brazil in the near term and our forecast reflects this.

EEMEA was up 6%, driven primarily by pricing in Russia and Ukraine in response to the sharp devaluation of each country's currency. Russia grew high teens for the year, driven by strong growth across all categories, including our largest one, chocolate. Alpen Gold led the way in chocolate, while biscuit growth was fueled by the successful launch of Oreo. However, as in Brazil, volumes fell in the second half as categories slowed in response to weakening economic conditions and price elasticity.

Asia-Pacific was up about 2% with solid growth in China partially offset by weakness in some other markets. For the full year, China was up high-single digits driven by strong vol/mix in both biscuits and gum. beVita breakfast biscuits got off to a strong start. Oreo Thins continue to perform well behind distribution gains while Stride gum was up high teens. However, growth slowed in the fourth quarter reflecting the overall economy. As a result we remain cautious in our China forecast for 2016.

India increased modestly, but we're pleased that chocolate grew solidly in the second half in response to stepped up A&C investments. Cadbury dairy milk was up high-single digits and Bubbly is off to a strong start. In addition, Asia's growth was tempered by about 1 point from SKU reductions, as it was one of the regions most affected by the loss of some short-term Kraft licenses in late 2014.

Europe was down about 2%, including a drag of more than 1 point from strategic actions to improve revenue mix. Vol/mix, while still negative, improved throughout the year fueled by the benefits of increased A&C and narrowed price gaps. For example, milk and biscuits grew mid-single digits across the region. And UK biscuits grew mid-teens fueled in part by our latest innovation, Ritz Crisp & Thin.

North America was up 1% with biscuits growth accelerating in the second half behind increased A&C and innovation, including Oreo Thins, and belVita bites. Importantly, vol/mix drove this acceleration.

Turning now to our categories. For the full year, our snacks categories were up about 5.5% and about the same if you include powdered beverages and cream cheese. As with our revenue, pricing was the key driver as volumes remained challenged. Our organic growth was about 1.5 points below our categories. That was largely related to the 90 basis-point impact of our strategic actions to improve revenue mix as well as the price elasticity we experienced earlier in the year.

Overall more than 55% of our snacks revenue gained or held share with solid performance across each category. Let's take a closer look. The biscuits category was up about 7% and our revenue was up about 6.5 % with strong performances in China, Brazil and Russia. About 60% of our revenue gained or held share, including increases in both cookies and crackers in the US as well as solid share gains in Brazil.

The chocolate category increased about 5.5% while our revenue grew only about 1%. This reflected the fact that we were the first to price in most of our markets, but as I said earlier, this was essential to protecting the health of our franchises. As expected, our performance improved in the second half as price gaps narrowed and as we increased A&C support in key markets. As a result, market shares steadily improved with half of our chocolate revenue gaining or holding share for the full year. That's up from about 25% in the first half.

Lastly, the gum and candy category increased nearly 2%. Our revenue grew 4% with both gum and candy up low- to mid-single digits. Halls grew mid-single digits driven by strong support behind the new Halls air campaign that's now been rolled out across Europe, North America and select markets in AP and EEMEA.

Finally, consistent with our plans, we increased A&C support behind high-return marketing initiatives to accelerate revenue growth and drive share. As you can see on slide 8, our organic growth accelerated sequentially as the year progressed, while our share performance was strongest in the fourth quarter. Importantly, we delivered this improvement while significantly expanding adjusted operating income margin, a true virtuous cycle.

In sum, we're pleased with our overall financial performance in 2015, as well as with the excellent progress we made in the transformation. As a result, we believe we are well-positioned to deliver strong results again in 2016. Let me now turn it over to Brian, who will provide details on our 2015 margin performance and earnings growth as well as on our 2016 outlook.

Brian Gladden (CFO):

Thanks Irene, and good morning. Starting with slide 9, you can see that for the year adjusted gross margin expanded 230 basis points to about 39%. As Irene mentioned earlier, strong net productivity was the key driver for this improvement. We are now beginning to see the early benefits from our upgraded supply chain network including the installation of our highly efficient lines of the future.

For the year, mark-to-market of commodity and currency hedging contracts was a 40 basis point benefit. We also delivered another year of strong adjusted OI margin expansion, up 170 basis points to 13.7% while increasing our growth investment significantly. We continued to drive down overhead costs, as a percentage of revenue, leveraging ZBB to identify areas of opportunity and capture the savings. These

approaches are now the way we work and will continue to deliver benefits for us as we move forward.

For the year, A&C spending was nearly 9% of revenue, up about 60 basis points. Most of the step up was in the second half, including a significant increase in the fourth quarter. As Irene discussed earlier, these investments helped us accelerate organic revenue growth and improved our share performance as the year progressed. We are continuing to prioritize our spending to generate the best overall returns.

Now let's look at margin by region. As you can see on slide 9, developed markets drove most of the margin expansion, with North America up 230 basis points and Europe up 190 basis points. In both regions, strong net productivity drove significant gross margin expansion and overheads were down as well.

In Latin America, OI margin decreased 70 basis points largely as a result of cycling to benefit from value-added tax-related settlements in the prior year, while the weakening macro environment also pressured vol/mix. But, in EEMEA and AP, OI margin increased 100 and 150 basis points, respectively. In both regions, gross margin expansion and lower overheads more than offset increased A&C.

Turning to EPS. Adjusted EPS was \$1.75 for the year, up 19% on a constant-currency basis. Strong operating gains of \$0.22 drove the increase. And the year-over-year change in mark-to-market added \$0.06.

Below the operating income line, lower interest expense and the benefit from a lower share count more than offset the headwind from higher taxes and the dilution from the coffee transaction that closed in July. Including an unfavorable currency translation impact of \$0.33, adjusted EPS was flat. As you can see on slide 13, over the past three years we have returned more than \$11 billion of capital to our shareholders including nearly \$3 billion in dividends and more than \$8 billion in share repurchases.

For 2015, we accelerated this activity by returning \$4.6 billion. This included a \$1 billion in dividends as well as buying back \$3.6 billion of stock or roughly 92,000,000 shares at an average price of \$39.43 per share. As we exited the year, we had about \$5.5 billion remaining under the current buyback authorization that goes through 2018.

Before turning to our 2016 outlook, let me update you on the change we're making in our accounting treatment for Venezuela. As you saw in our press release today, effective at the end of the fourth quarter, we've deconsolidated our Venezuela operations and we began to account for our investments in Venezuela using the cost method of accounting in our GAAP financial statements.

As a result, we took a one-time accounting charge of \$778 million to our fourth-quarter 2015 reported results to remove all assets and liabilities of our Venezuelan operations from our balance sheet. On slide 14, we've summarized the impact of deconsolidating Venezuela on our 2015 results.

Excluding Venezuela, organic revenue was up 1.4% versus 3.7% including Venezuela. You should also note that removing Venezuela reduces 2015 total category growth to approximately 4%. Our adjusted OI margin, excluding Venezuela, was 50 basis points lower as our margins there were higher than our total Company average. But the impact on our margin improvement was relatively minor.

Excluding Venezuela, we expanded margin 150 basis points versus the 170 basis-point increase including Venezuela. Finally, excluding Venezuela reduced our adjusted EPS by \$0.10. As we move to our 2016 outlook, please note all of our guidance reflects a 2015 baseline that excludes Venezuela.

With that, let's move to our outlook. You will see that our approach to 2016 is consistent with our 2015 playbook. We continue to target underlying organic-revenue growth in line with our categories.

This means prudently increasing investments behind our power brands and innovation platforms to

accelerate revenue growth and gain share, while remaining nimble on how and when we deploy A&C resources across key markets to deliver attractive returns. It also means maintaining our commitment to invest in sales and route-to-market capabilities so that we are well-positioned to capitalize on the long-term growth potential in emerging markets.

We also believe we have further opportunities to improve revenue mix by optimizing trade spending and eliminating less profitable SKUs. While we expect this will be a headwind to our reported organic growth, it strengthens the underlying health of our business as contributor to our margin improvement. The challenge will be in striking the right balance between competitive position and customer response so that we aren't simply losing revenue and that the impact is net positive on the P&L and in cash flow.

Our supply chain reinvention initiatives remain on track and we'll increasingly benefit from the upgraded infrastructure and capabilities that we are putting in place around the world. We will continue to reduce overheads by leveraging zero-based budgeting.

Incrementally in 2016, we will begin to realize savings from implementing global shared services as we eliminate redundant resources and complete process migration work. Finally we will continue to look to price to recover currency-driven input cost inflation so that the benefits of our cost reduction initiatives can flow to the bottom line.

In sum, we remain focused on reducing costs, expanding margins and building our advantage platform to drive top line growth. Our overall approach to our 2016 outlook aligns well with the long-term advantages of our snacking categories. But it's no secret that 2016 is expected to be another challenging year.

On slide 16, you can see various issues that are affecting all categories not just ours. Considering this macroeconomic outlook and the weakening trends we saw during Q4 in several of these markets, we are estimating that global snack category growth will slow to 3% to 4% this year. That's down from the price-driven growth of about 4% in 2015, excluding Venezuela.

While headwinds may affect the near-term, we continue to believe in the long-term growth prospects for snacking. Given this backdrop of challenging category dynamics, we expect our 2016 organic revenue growth to be at least 2%. We view this as a prudent topline outlook, given the volatility and recent trends that we're seeing. This includes 125 basis-point headwind from our actions to improve revenue mix by selectively optimizing trade spending and continuing to eliminate less profitable SKUs.

As a result of these initiatives, we expect our underlining organic revenue growth to be in line with our forecast of 3% to 4% global category growth. Now let's look at our margin outlook. For 2016, we expect to deliver on our previously committed adjusted OI margin of 15% to 16%.

As we said earlier, the deconsolidation of our higher-margin business in Venezuela creates an approximately 50 basis-point headwind, so we are now likely to be at the lower end of that range. However, our year-over-year margin expansion is expected to be in the range of 200 basis points versus 2015. Said another way, we would have expected to be at the high end of the committed range of 15% to 16%, had we not deconsolidated Venezuela.

Overall, we expect the drivers of our margin expansion to be similar to last year. Specifically we expect strong contribution from our supply chain as we continue to drive world-class net productivity levels. We now have approximately 35 state-of-the-art lines of the future currently on stream. And we are clearly seen benefits hitting the P&L as we ramp up production levels.

We also expect to continue to reduce overheads as we execute our ZBB program. As we adjust our organization model and we realize the first savings migrating back-office processes to global-shared

services. In 2015, as we began to transition key processes, in many cases we maintained duplicate resourcing until we were confident that the migration was successful.

As we ramp up shared services and eliminate these redundant transition costs, we expect savings to build, not only during 2016, but through 2018. We also expect to expand margins by improving our revenue mix. As we execute on this plan, we expect our margins to build as the year progresses.

Given the progress we have made and the clarity of our plans and actions beyond 2016, we are confident in our ability to deliver an adjusted OI margin of 17% to 18% in 2018. On a pro-forma basis, excluding Venezuela across all years, the midpoint of this 2018 target equates to an over 400 basis point increase versus 2015 and an almost 700 basis-point improvement versus our 2013 baseline.

We expect to deliver this margin target by continuing to focus on three things. First, productivity gains from our supply chain. These are funded and in our plan. We are now expanding and replicating a model that is working.

Second, more overhead reductions from lower indirect costs, savings from our global shared services and organizational efficiency. And third, improved revenue mix. These improvements will be partially offset by increased A&C support as we further align our share of voice with our share of market.

Turning to our 2016 EPS outlook. By delivering our organic revenue and margin targets, we expect adjusted EPS to increase at a double-digit rate on a constant-currency basis. We expect this increase to be driven primarily by operating gains. Below the line, while we expect a lower share count to provide a modest benefit, this will likely be offset by the impact of the coffee divestiture as we had two quarters of fully-owned coffee business in full-year 2015.

So, before we take your questions, I would like to go over a few other items for financial modeling purposes. First, based on current foreign-exchange rates, we estimate a currency headwind of approximately 6 percentage points for revenue and approximately \$0.13 for EPS. We expect our adjusted-interest expense to be between \$650 million and \$675 million, or about the same as 2015.

We anticipate our adjusted tax rate will be in the low to mid 20s for 2016, roughly similar to our 2015 rate. And we expect to repurchase about \$2 billion of our shares as we deliver on our commitment to spend the remaining coffee transaction proceeds on share buybacks this year.

In addition to respect to JDE, at the back of the presentation is an updated framework to help you estimate its earnings. As you know, JDE is a private company, so we won't share significant detail on their results or projections. JDE Management expects performance to be pressured this year as a result of their strategic actions to better position the company for long-term success.

As an investor in JDE, we remain very confident in the long-term potential of the business and believe it will create significant value for its shareholders. In addition, with our participation in the proposed Keurig transaction, we will be well-positioned in the on-demand segment in North America while further enhancing our global footprint. We will update you on its impact to our financials after the closing.

So to wrap up, we delivered very strong results in 2015. In 2016, we expect macro conditions, especially in emerging markets, to remain difficult and potentially worsen which will weigh on category and revenue growth.

As you might expect, and I think you are hearing from others, we are seeing even more volatility in markets like Brazil, China and Russia even as we start our first-quarter. As a result, we will continue focusing on driving strong margin expansion and earnings growth. We will improve our top-line growth, revenue mix and share performance and we will return significant capital to shareholders. We will talk

more about our strong cash flow generation at the upcoming Cagney conference.

We remain very confident in our ability to execute our transformation agenda and deliver an adjusted-OL margin target of 17% to 18% in 2018. With our advantage assets, leadership and capabilities, we believe we are one of the few industry players with the potential to deliver strong top- and bottom-line growth over the long term.

With that, let's open it up for questions.

QUESTIONS & ANSWERS

Operator:

Andrew Lazar, Barclays

Andrew Lazar (Analyst - Barclays Capital):

Two questions for me, if I could?

First, if we exclude Venezuela and strategic actions from both 2015 and 2016, it looks like you expect organic net-revenue growth to accelerate from, call it, 2.2% to a little over 3%, even though certain key markets have become a little more difficult heading into 2016 and you have said that you're expecting category growth rates to slow.

So I'm trying to get a sense of what the key reasons are to expect this organic growth acceleration. Is it the A&C spend? Is it the share progress or what's driving that thought process?

And then I've got a follow-up.

Irene Rosenfeld (Chairman & CEO):

Yes, Andrew, I understand the question; there's a lot going on here. But, I think it reflects the underlying strength of our business fundamentals. There's no question that our revenue will improve from, probably more like a 2.3% underline to, say about, a little over 3% this year. And that is fueled by strong A&C support, by continued progress in terms of vol/mix, while still improving our margins significantly from about 150 points in 2015 to 200 in 2016 en route to about a, as we said, 17-18 in 2018, which reflects about a 700 basis-point improvement over the 5-year period.

All of that, while still generating double-digit EPS growth and strong cash flow. So we think our underlying business fundamental are quite solid. There's obviously a lot of moving pieces in this challenging environment, but we are doing what we said we were going to do. We think our underlying business is sound and we think we are well-positioned to continue to deliver strong growth in a challenging environment.

Brian Gladden (CFO):

And Andrew, it builds on the success, and you can see the trend as we play through the year, improving vol/mix, revenue picking up and clearly share performance improving in exiting the year.

Andrew Lazar (Analyst - Barclays Capital):

Got it. Thanks for that. And second, with respect to the 2018 margin target. Is this just capturing previously announced plans that you've talked about beyond 2016? Or are there incremental actions beyond the \$1.5 billion target that you talked about. And, importantly, what sort of volume picture or outlook is that margin target predicated on?

Brian Gladden (CFO):

It really is just better line of sight to the actions that we are working now to deliver on this target. Good momentum and cost reduction programs as we execute on those plans. Supply chain, as you know, those actions continue even beyond 2016 and 2017. That will continue to generate benefits. It's really not anything new or incremental; it's the same playbook. And, as we've gone farther into it, we have much more confidence. And in terms of the overall environment, we are not counting on a return of emerging markets to historical growth rates here. I think we are building on what we see today in the world, and that's the basis for this target.

Andrew Lazar (Analyst - Barclays Capital):

Thank you. See you in a couple weeks.

Operator:

Chris Growe, Stifel.

Christopher Growe (Analyst - Stifel Nicolaus):

Just had two questions as well, if I could. The first would be, maybe for Brian, as we look at 2016 and we're starting to see some of this in the fourth quarter, this benefit to the gross margin coming through from lines of the future in supply chain benefits. Should the gross margin be the main driver of the operating margin expansion for the year? I'm trying to get a sense of how that may play into it and how input cost inflation will fare in 2016 as well.

Brian Gladden (CFO):

I think it will continue to be both. As we've said, supply chain ramped throughout the year, and we saw the lines of the future really generating more benefits in the second half. We've said that all year. That's really how it played out. That will continue.

As you know we've now got success in implementing these lines of the future in each of the categories. It's really about taking that model and implementing it in a broader set of assets around the world. It's something we are very confident in.

On indirect costs and shared services, obviously ZBB and attacking some of the keep cost packages was probably the lowest hanging fruit and some of the earliest benefits. But things like shared services and some of the organizational efficiency work is really a 2016 driver. It is going to continue to be both.

As you saw the results in 2015, clearly, it was a strong gross margin driven year, but we also made significant investments in A&C. That's another dynamic that is going to play out and that affected SG&A. It's a little bit of both. Commodity inflation, okay, I think clearly there is some pockets of improved commodity dynamics playing out over the last couple months, but you have to keep in mind that currencies are also a big part of that. In most cases they're going the other way, especially in some of the key markets for us. Right now it's not a big driver for us given that you have to look up of those together.

Christopher Growe (Analyst - Stifel Nicolaus):

Okay. Related to that, a follow-up to that, if you look at the revenue growth kind of using the 2% or at least 2% rate of growth, is that just primarily pricing driven? I know there was a comment about being price-driven in the emerging markets. And do you expect volume growth for 2016?

Irene Rosenfeld (Chairman & CEO):

It will get better, Chris, but no, it's still going to be a challenge because of the strong impact of pricing. But certainly the overall -- we don't anticipate the overall impact of pricing to be as extreme as it was this past year.

Operator:

Ken Goldman, JPMorgan.

Ken Goldman (Analyst - JP Morgan):

I will stick with the two question pattern, if I can. First when you initially provided guidance years ago for EBIT margin in 2016 of 15% to 16%, you provided a roadmap, if you will, as part of a presentation to get there. I think something similar to what you have on slide 12 today. Is this something you might be willing to do again, at some point, regarding 2018's margin? I'm just trying to get a better idea of, specifically, which line items grow when, a sense of timing and so forth.

Brian Gladden (CFO):

Yes, Ken, we will talk a bit more about it at Cagney I would say it's going to look a lot like the roadmap you have. I think the things that we are executing today have resulted in the progress that we've made thus far and they're the same things that are going to drive us through 2018. As I said earlier, it's not really a new set of initiatives that are going to get us there. We have increasing confidence and we are going to execute things that are in front of us. So we'll show you more of that in Cagney, but I'm not sure it will be exciting and new, other than maybe some of the revenue mix activity that we're focused on that we both talked about today.

Christopher Growe (Analyst - Stifel Nicolaus):

You would be surprised by what we find exciting at Cagney.

Brian Gladden (CFO):

(laughter) We will do our best.

Ken Goldman (Analyst - JP Morgan):

And one quick one for me on Europe. If I recall, one of the reasons why Q3 was a little bit weak was because of hot weather, which I think hurt you and some of your peers, as well. Maybe it was just my model, but was Europe a little bit more sluggish versus what you expected this quarter? We had thought that maybe volumes repeat a little bit just given that the weather had normalized a little.

Irene Rosenfeld (Chairman & CEO):

No, we actually are pleased with the progression that we've seen in Europe, Ken. We did invest as we got out of the hot weather. We did invest, particularly behind chocolate, as the year ended. And, as a result of that, our revenue is still down, but the underlying growth was modestly higher. If you recall, Europe is the region that experienced the greatest impact of our strategic action. It hit us for about 130 bits

Christopher Growe (Analyst - Stifel Nicolaus):

In the quarter?

Irene Rosenfeld (Chairman & CEO):

In Q4. So the aggregate revenue in the fourth quarter for Europe was down about 1.1%. It was almost entirely fueled by the strategic actions. We are very pleased to see our share trends improving,

particularly in chocolate, which was the hardest hit because of pricing actions, especially in the UK and Germany, as well as we saw improvement in biscuits in France.

So, at the same time, we were driving significant margin expansion up over 200 bits for the year. We are very pleased with the exiting position of Europe. I think they are well-positioned from a margin and a profitability perspective now to grow off that base.

Operator:

Bryan Spillane, Bank of America.

Bryan Spillane (Analyst - BofA Merrill Lynch):

I've got two questions both related to organic sales growth. The first one is, in terms of the guidance for 2016, I just want to clarify. The 2% growth includes 125 basis-point drag from the vol/mix impact from trade optimization and the SKU reduction. With the trade optimization, why isn't there a positive -- I kind of read that as being that there would be less trade spending and so there should be some revenue lift from that. Could you just clarify why it would be a net negative when there should be, I would have sensed, maybe some net price realization in there? Is it because the SKU reduction is so much bigger or am I just misunderstanding?

Irene Rosenfeld (Chairman & CEO):

It's partly because there is a volume impact as we take these actions. In the case of the pruning, it's about shelf space. In the case of trade optimization, it's about competitive positioning and customer reaction, and that is why we are so methodical in how we approach this opportunity. You will ultimately see a net positive as these things play through. You will certainly start see the benefits in our overall revenue mix, in our profitability and it's a real enabler to the simplification in our supply-chain activity. You will see the benefits play through, but there is a short-term impact as we take some of these actions.

Bryan Spillane (Analyst - BofA Merrill Lynch):

So it sort of re-bases the volume this year, and then there should be a lift off of that in 2017? Is that kind of the way to think about that?

Irene Rosenfeld (Chairman & CEO):

Yes. Except that we are doing some-- are taking some additional action. So essentially, it pulled the 90 bits out, and then we're taking out another approximately 125 basis points. The net of that, though, is that we have a healthier franchise and we think we are well-positioned to grow off of that base.

Bryan Spillane (Analyst - BofA Merrill Lynch):

Okay and then on the more that's between now and 2018, as we think about the increased A&C spend, that you are planning, how much of it now is going to seating sort of white space opportunities? Or how much of it is just spending more behind your existing products to support the price increases or to stay in front of consumers in a week environment? I'm just trying to understand, at what point do we start to see some lift from taking advantage of the white space opportunities? Is that pushed out a little bit because of the environment?

Irene Rosenfeld (Chairman & CEO):

It is disproportionately, the impact on the base franchise and, in fact, that's one of the reasons that you saw the sequential improvement as we exited 2015 and you will expect to see continued improvement in 2016. As we've said before, we use investments in white space. We make investments in white spaces

somewhat sparingly. We need to establish the franchise. We need to establish a supply chain off and get our manufacturing up and running.

We do have a roadmap that will get all of our categories to all of our markets over time, but as you think about the investment that we made, for example, in gum in China, that's been a sizable investment. It's paying off quite nicely, but we only do a few of those every year or so. They take a little bit longer to pay back and, particularly, in this challenging environment, we are being a lot more prudent in terms of those kinds of investments. All that said, as I mentioned in my remarks, smart companies are making the investments in the downturn to be well-positioned. Much of our investment is behind our existing franchises there and, selectively, we are looking at white-space opportunities.

Bryan Spillane (Analyst - BofA Merrill Lynch):

Thank you. We will see you down in Florida in a few weeks.

Operator:

Jason English, Goldman Sachs.

Jason English (Analyst - Goldman Sachs):

Thank you for the question. I want to come back to Spillane's line of questioning. First, congratulations on the market-share progression throughout the year. I'm quite intrigued by the trade-budget optimization stuff. We're definitely big fans of the opportunity in the industry. We have been somewhat cautious in terms of sizing the prize within the broader snacking space, given the expandable consumption nature of the categories, the impulsive nature.

As Spillane pointed out, your guidance for this to be in that sales drag implies elasticity on that trade-spend reduction greater than 1. Can you walk us through a little more detail, in terms of scale and scope, of how you are attacking this and how you are planning to mitigate the risk of market-share losses as competitors step in to fill the void?

Irene Rosenfeld (Chairman & CEO):

First of all, Jason, our impact in 2016 is going to be much more related to the SKU reduction than trade optimization. As you know, we appointed Mark Clouse to the position of Chief Commercial Officer. He began in that role earlier this year, and one of his main deliverables is helping us with trade-spend optimization. We're just getting started with that work. As I mentioned, it's critical that we strike the right balance between our competitive position and our customer response, making sure that it's a net-positive impact. So in the near term, particularly in 2016, the bulk of our strategic actions will continue to be focused on eliminating tail brands and less profitable SKUs across each region, which will have a clear impact in the near term. But, as I said before, stage us exceptionally well for the long term.

Jason English (Analyst - Goldman Sachs):

Okay. That's helpful. One more quick question, and I will pass it on. Latin America, I know there are some comparison issues on the prior year, but even if we stripped those comparison issues out, it was a particularly soft quarter, in terms of the margin profile for the business. Anything unique there? Is there something we should extrapolate on the forward or could you talk us through the details there?

Brian Gladden (CFO):

I think it's -- in the quarter a lot of the tax benefits that we had in the prior year was in the fourth quarter, the biggest piece of it. So that's probably the biggest dynamic. I would just say, look, you saw, as we said

in the comments a weakening macro in places like Brazil that challenged us a bit. The biggest one by far, Jason, is the year-over-year tax impact.

Operator:

Matthew Grainger, Morgan Stanley.

Matthew Grainger (Analyst - Morgan Stanley):

I just had a few follow-ups on the increased A&C spending. First, I guess just from a mathematical standpoint, can you clarify where we are on a pro-forma basis in terms of A&C, as a percent of sales, and whether the deconsolidation means we are now a bit closer to the long-term target and will be more focused on optimizing the effectiveness of the spend? And then, anecdotally, now that you've been through few quarters of beginning to ramp up the level of spending, can you talk at all about where you've found the reinvestment to be particularly effective where you've made the decision to pull back based on the payback you have observed?

Brian Gladden (CFO):

I would say there's not a lot of A&C that was spent in Venezuela. You can do the math. It does bring the number up a little bit. As we said, we are sort of exiting the year at a 9% run rate and much of that was ramping as we headed through the year. It's one of the drivers of the profitability in Venezuela was the fact that we didn't really have much A&C and we didn't need it in that market. That's the first part of your question. I'll let Irene take the second.

Irene Rosenfeld (Chairman & CEO):

We're seeing our spending is up to about 9% of revenue; it's up about 60 bits. As we look at where we spent it, we're very pleased with the returns that we are getting.

So we invested behind biscuits in the US, things like Oreo Thins and belVita bites. We are seeing significant investment year over year in the fourth quarter as we exit the year almost at 3% revenue growth on our biscuit business. I mentioned the impact on EU chocolate where we invested behind our franchise in the chocolate franchise in particular in the UK. We'd seen continued improvement in Germany, despite the fact that that was one of the areas that we chose to take out some of our less profitable volume.

In addition, there is a number of markets where we backstopped our pricing actions as we priced in response to currency devaluation, markets like Brazil and Russia. Again if you look at our share performance, and you look at our margin performance, you will see the impact of those investments. We are going to continue to monitor our performance quite closely, but we want to make sure that we remain nimble in our ability to capture opportunities as we see them in continuing to make the necessary infrastructure investments as well, as the markets recover.

Operator:

Jonathan Feeney, Athlos Research.

Jonathan Feeney (Analyst - Athlos Research):

Good morning. I just wanted to ask a big picture question, Irene. I wonder what makes Mondelez special is this global growth opportunity. I think as you talk about organic net-revenue growth, what people are really thinking is the volume-growth opportunity that comes from growing units in all of these fast-growing emerging markets.

If I look at your 4-year growth projection on a volume basis, you are down in what are supposed to be the volume-driving segments of your business, other than Eastern Europe. You are down in Latin America, you are down in Asia-Pacific. While the currency is a part of that, macro is part that, maybe not your fault.

A couple of concerns I have that I would love your thoughts on. First, when you see-- whenever you trade-off pricing and volume, that's a lot easier on the margin structure than having to go the other way. And you do eventually need to go the other way on volume growth to sustain any margin expansion.

Secondly, do you worry in some of these markets where you look at Asia-Pacific or Latin America where you're working hard and doing the right thing to maintain that margin structure that is fair to investors, but you're seeing some unit declines. Do you worry that kind of reverses that networking effect and you get less usage and less households using the product over time in a way that maybe constrains the 5- and 10-year growth of the Company? How do you think about that balance?

Irene Rosenfeld (Chairman & CEO):

Thank you for that question, Jon. We obviously continue to pay very close attention to the impact of our pricing actions on our volumes. I would remind you that our 2015 vol/mix was down about 3 points. That is about 1 point from Venezuela, about 1 point from the strategic actions we took and about 1 point of elasticity, which was mostly in the first half. As we started to see, to make the investments as we locked in our margins and started to make the investments in selected markets in the back half, we saw a very strong improvement in not only in the vol/mix trend, but also in our individual franchise performance.

As we look at 2016, our intent, again, is to make sure that we are continuing to get a positive benefit. We're not going to give you specific guidance for the split between pricing and vol/mix, but, as I mentioned, we are expecting pricing to be less of an impact. But it will continue to be pressured as we see inflation in these emerging markets.

I think, most importantly, what you need to look to for us, is to make sure that we are continuing to make the investments necessary to stage our business for the long-term as these emerging markets recover. So it's a constant monitoring of how we are performing, but we think we're getting the right balance here, but it has had a short-term impact. What we're quite encouraged by those results that we're seeing from the back half of the year, and we've reflected that in our guidance for 2016. I think, Jonathan, we want to be patient. We believe there's a long-term volume growth dynamic clearly in these emerging markets. We're making the investments, as Irene said, to ensure that we are positioned for that. But the reality is, in the short term, given what has happened with currency and commodities over the last several quarters, it's really driven the dynamic and it has forced all the pricing through. That is really the driver here.

Operator:

Eric Katzman, Deutsche Bank.

Eric Katzman (Analyst - Deutsche Bank):

I guess a couple questions. First one on the slide, on page 8, that talks about the snack-share performance, that's like a running on a year-to-date, and wouldn't that imply that the fourth-quarter share, given the jump from the third to the fourth quarter, does that imply the third-quarter share of improvement was like 65% or 70%?

Irene Rosenfeld (Chairman & CEO):

I'm trying to follow your math here. There's no question that our shares spiked. Our share improvement spiked in the fourth quarter. Much of the investment that we made would have hit the market in the

fourth quarter and you see that play through on the slide.

Brian Gladden (CFO):

As you recall Eric, these were in the 45% range last time we looked at it, last time we shared it. So, a big jump in the fourth quarter and we look at it -- we tend to look at it on a year-to-date basis.

Eric Katzman (Analyst - Deutsche Bank):

Okay. And then, CapEx have been running like 1.6. Obviously, with currency in Venezuela, your dollars, your net income is going to be pressured, but would, given the weaker volume that we've been discussing, can lower CapEx offset that? So, maybe free cash flow is not as impaired by some of these developments?

Brian Gladden (CFO):

We'll take you through more detail on cash flow. We had a significantly stronger cash flow in 2015 than what we had targeted and shared with you and we will update you on that as we talk in Cagney. I think we will continue to monitor the environment. This volume dynamic is something that's affecting how we're spending CapEx.

We have been, I would say prudent and thoughtful around where we're spending CapEx. At the same time, I also want to say we are sticking to the plan, and the reality is that we still have investments to make as part of executing and building the supply-chain capabilities to deliver on the 2018 targets we just talked about. As we have said, I think 2015 was the peak in CapEx. It will get reset a little bit as the revenue comes down with Venezuela. I think you'll see it come down from here and, as we get towards 2017, 2018, be at the levels we have talked about, closer to the 4% to 4.5% range.

Eric Katzman (Analyst - Deutsche Bank):

And if I could just, last one, a bigger picture question for Irene. I realize that Hershey, your businesses are quite different, but Hershey has talked about, at least in the US, a much more competitive landscape for snacks and confection. Different consumer habits may be affecting overall how the market works, promotion et cetera. Is part of the SKU cuts across the globe, is part of that a function of -- and I assume these are some of the local brands that you've got via Cadbury, but is it because the consumers' habits are changing? You know, like meat snacks or something else are more relevant or is it something else that's playing out?

Irene Rosenfeld (Chairman & CEO):

We actually feel quite optimistic about the outlook for our snacks in North America. We're seeing good progress, as we said, as we exited the year. The growth rate is in excess of the category-growth rate; in fact we are driving it. We feel very good about our DFD support; we think we're getting good in-store presence. Our shares are strong. And we've got a good innovation pipeline. I think we are well-staged to continue to drive growth in this geography.

Brian Gladden (CFO):

I think the bigger picture point on SKUs, SKU reduction, is really about allowing us to focus on the power brands and really put more resources against them.

Irene Rosenfeld (Chairman & CEO):

As you said, it was disproportionately in the emerging markets because of some of the acquisitions. Our portfolio in North America is a lot more focused on the power brands than what we're seeing elsewhere in

the world.

Operator:

Robert Moskow, Credit Suisse.

Robert Moskow (Analyst - Credit Suisse):

I was watching the stock price, and it is down today, and I don't think it's because of Venezuela, because I think that's just an accounting change. I think people are definitely dialing in on the volume and the guidance, the caution about guidance for topline for next year. I just want to make sure I got my number straight. You are saying that the category growth will probably be 3% to 4% and if you strip out the SKU rat, you would be 3% plus. So right in that 3% to 4%. Did you consider, though, saying that you would be above the 3% to 4%, on a normalized basis? Because I think you are making progress in gaining share; fourth quarter definitely demonstrates that. The follow-up is, can you commit to 55% of your categories gaining share in 2016 just to kind of hammer home the point?

Irene Rosenfeld (Chairman & CEO):

The simple point, Rob, is don't forget that we are growing essentially in-line with our categories in 2016, while we are expanding margins by about 200 basis points. I think it's our ability to drive top- and bottom-line is one of the things that will continue to distinguish us. I think we've got good visibility to the places and the programming and the investment levels that we need to continue to protect our shares and ultimately drive our shares. But, as you rightly point out, in that timeframe, I think we're going to continue to see the balance that we've laid out. Longer term, we would expect clearly to deliver revenue growth at or above the rate of our categories.

Brian Gladden (CFO):

Rob, if we saw more momentum in the markets and thing were things were a little less volatile, I think we would have more confidence in being a little more forward-leading with that. That's part of what we are thinking here.

Robert Moskow (Analyst - Credit Suisse):

So it's prudent guidance in light of the fact that there is a big margin expansion target going on at the same time?

Irene Rosenfeld (Chairman & CEO):

As well as a challenging macro environment. Again, as we told you, we are seeing, even as we look at this first quarter, we're seeing continued pressure in a number of the emerging markets.

Operator:

Alexia Howard, Bernstein.

Alexia Howard (Analyst - Bernstein):

Two quick ones. On the SKU rationalization, that's been going on for a couple of years now. Can you -- is there an end in sight in terms of when that's going to be impacting your sales? Will it be particularly heavy in the first half of the year? Will it ease off in the back half? That's the first question. And the second one is, excluding the advertising spending, as a percent of sales, it looks as though SG&A was fairly flat. Can you quantify the impact of the Latin American BAT hit, and if there were any other things in there that are causing your SG&A not to come down. I know that you've done a lot of cost

cutting, big headcount reduction and moved to a global-shared services organization in September. It just surprises me that the SG&A did not move this quarter. Thank you.

Brian Gladden (CFO):

On the SKU rationalization activities. I think this is -- we are making progress. I guess what I will commit is that we will give you a bit of an update in Cagney on that, as well. It is a key lever as we think about the supply chain and simplifying our product offerings as part of that activity, allows us to get at cost and simplify what we're doing in the plants.

And there's lots of examples that we can take you through. I would say we are in the middle of that. I don't know that it's going to be a front half, back half kind of discussion. We're going to continue to work through it, and, as we do it, we will adjust the targets and the plans there. We're making good progress, I will just tell you that.

On SG&A, really three dynamics that are probably inconsistent with how people are thinking about it. One is obviously, I'm not sure everybody fully got the A&C step-up that we are doing here. That's obviously showing up in the SG&A. We have obviously incentive comp that flows through there and, given the strong performance versus targets, that's up year-over-year.

And then currency. I think those are the three big drivers that would represent, and I would probably tell you a third, a third, a third in terms of where it is in SG&A. The underlying performance in overheads, the work that we're doing on interacts and the broader organizational activities is generating benefits. We exceeded our internal targets on ZBB benefits this year, and we've actually taken up what we're going to do there for 2016 as part of the plan.

Operator:

Kenneth Zaslow, BMO Capital

Ken Zaslow (Analyst - BMO):

I will keep it real quick, in terms of time. My first question is, given the challenges in South America, is there an opportunity to accelerate or reassess any opportunities for cost savings or do anything different given that you have a different environment there?

Brian Gladden (CFO):

I think it's -- we're pretty pleased with the businesses we have in Latin America. I think it does -- there is some slight dynamics around our headquarters' overhead in Latin America as a result of now deconsolidating Venezuela. I think it's more a country by country look at the dynamics of what's playing out in the Brazil market or Argentina or other places given inflation and what we're seeing in volatility.

But again, the fundamental dynamics in those markets, we like the gross margins; we like our competitive position. They are part of what we're doing on supply chain and ZBB and all the other activities. We will continue to look at that and adjust targets as appropriate. I'm not sure anything changes in terms of the big picture plan.

Irene Rosenfeld (Chairman & CEO):

I would say we are constantly benchmarking each of our countries across our landscape, and as well as versus competitors, to the best of our abilities. I think we've got a pretty good handle on where the opportunities are, and that's essentially been the plan that we have been executing.

Ken Zaslow (Analyst - BMO):

And my point of clarification, just making sure I understand it. Your 18% margin does require you to do anything besides hit your volumes in-line with the category growth? There is no expectations in there that you should exceed it? It's not dependent on any sort of volume numbers that are above the category; is that my understanding of that? Is that fair?

Brian Gladden (CFO):

Yes.

Operator:

We have time for one more question. David Palmer, RBC Capital Markets.

David Palmer (Analyst - RBC):

Good morning. Just a follow-up on some earlier questioning, what are some examples of how the economic weakness is causing you to revisit your marketing plans, if at all, whether it be value packaging or perhaps slowing the pace of new products or the pursuits of these white-space opportunities you mentioned?

Irene Rosenfeld (Chairman & CEO):

I think, without a doubt, it is certainly impacting how we execute our pricing. We are using, depending upon the market, we are using a combination of tactics, whether it's list price, increases, trade-spending reduction, price pack architecture both on the low-end and the high-end. And, quite frankly, that's allowed us as we've had -- as we've talked before, one of the benefits of our lines of the future is, it gives us much greater flexibility with respect to packaging, which then allows us to execute pricing in a much less disruptive way to the marketplace.

I think it's one of the reasons that you see our vol/mix improving as the year progressed and as we exited the year. So we certainly are doing our best to make sure that, as we price, it has a small impact on the overall consumer landscape.

I would also say that virtually all of the pricing actions we have taken have been in response to industry costs. And so, some of the elasticity impact has simply been the time it takes for some of our competitors to execute pricing actions. As we've seen those price gaps narrow in markets like Russia and Brazil, for example, or some of actions we have taken in markets like the UK or Germany, we're seeing our shares improve.

So it is, we are doing our best to manage the landscape, and it varies market to market. But, certainly, as we think about some of our infrastructure investments, we have a factory going up in Russia, for example. We've moved a lot more slowly in this current environment as we think about that investment as a result of what we're seeing in the macro environment.

Brian Gladden (CFO):

And then, David, given the volatility, we are actively watching these A&C investments in the specific activities and tracking returns. Having a witness, the data and the tools and the willingness to adjust them and move money where it is paying off and where we see the long-term benefits is something that I think we are getting better at; and we've got some better processes in place to do that proactively as the volatility is playing out.

Operator:

That was our final question. I would now like to turn the floor back over to Management for any additional

or closing remarks.

Irene Rosenfeld (Chairman & CEO):

Thanks, everyone, for joining the call this morning. We'll be around for the rest of the day, and, of course, over the next couple weeks, as we head into Cagney, to address any questions. Other than that, we will see, probably the bulk of you, in Florida. Thanks again, and take care.

Operator:

Thank you. This concludes today's conference call.

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