Company Name: **Mondelez International Inc**
Company Ticker: **MDLZ**
Sector: **Consumer Goods**
Industry: **Food & Beverage**

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MONDELEZ INTERNATIONAL INC (MDLZ) Earnings Report: Q1 2016 Conference Call Transcript

The following MONDELEZ INTERNATIONAL INC conference call took place on April 27, 2016, 10:00 AM ET. This is a transcript of that earnings call:

Company Participants

- Dexter Congbalay; Mondelez International; Investor Relations
- Irene Rosenfeld; Mondelez International; Chairman & CEO
- Brian Gladden; Mondelez International; CFO

Other Participants

- Chris Growe; Stifel Nicolaus; Analyst
- Andrew Lazar; Barclays Capital; Analyst
- Bryan Spillane; BoA Merrill Lynch; Analyst
- Jason English; Goldman Sachs; Analyst
- Robert Moscow; Credit Suisse; Analyst
- Matthew Grainger; Morgan Stanley; Analyst
- David Palmer; RBC Capital Markets; Analyst
- Josh Levine; JPMorgan; Analyst
- Alexia Howard; Bernstein; Analyst
- Dave Driscoll; Citigroup; Analyst

MANAGEMENT DISCUSSION SECTION

Operator:

Welcome to Mondelez International first-quarter 2016 earnings conference call.

(Operator Instructions)

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

Dexter Congbalay (Investor Relations):

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

Earlier today, we sent out our earnings release in 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-K and 10-Q 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 now turn the call over to Irene.

Irene Rosenfeld (Chairman & CEO):

Thanks, Dexter. Good morning.

We have a good start to the year. We continue to drive top-tier margin expansion and earnings growth while stepping up organic revenue growth. Specifically, organic net revenue grew more than 2% as we drove our Power Brands, stepped up volume mix in developed markets, raised prices again to recover currency-driven input costs in emerging markets, and continued to eliminate less profitable brands and lower return spending.

We expanded adjusted gross profit margin by 170 basis points to 39.7% by driving strong net productivity. Adjusted operating income margin expanded 240 basis points to 15.1% as we continue to aggressively reduce overheads while significantly stepping up A&C support. And, finally, adjusted EPS was $0.48, up 31% on a constant currency basis, driven by operating gains.

Let's take a closer look at the details. Organic revenue in Q1 grew just over 2%, in line with our annual guidance. Importantly, the impact from our revenue management actions, which includes SKU reduction and trade optimization, was a little more than 1 percentage point. That is largely consistent with our full-year estimate of about 1.25 points, and you will see in a few minutes how that plays through our margins.

We delivered this growth, despite the volatile operating and currency environment that pressured category growth, especially in many of our larger emerging markets. In aggregate, emerging markets were up about 3.5% as we priced to recover currency-driven inflation to protect profitability.

Along with softening category growth, this pricing had some elasticity impact, which resulted in lower vol/mix in the short term. In contrast, developed markets grew 1.3%.

What is noteworthy is that nearly all of this growth was driven by vol/mix, including solid growth in both Europe and North America. This reflects the continuation of the improvement in our vol/mix contribution as the cost environment has moderated since early 2015.

Power Brands continue to drive our growth. They were up nearly 4%, in line with our categories. The shift of Easter-related shipments into the first quarter provided us with only a modest benefit, given that Easter was only one week earlier than last year.

Turning now to our results by region. Despite the challenging environment, every region contributed to revenue growth with three of them also delivering positive vol/mix. Latin America was up nearly 4%, all due to pricing in response to currency-driven inflation in Argentina and Brazil. Brazil was down low to mid-single digits as the deteriorating political and economic environment pressured category growth. We expect operating conditions in Brazil to remain challenging for the balance of the year, and that is reflected in our current outlook.

In contrast, Mexico, our second largest market in the region, was a bright spot. Revenue was up high single digits, driven by strong volume and share growth in gum. EEMEA grew 4.5%, all driven by pricing, in response to continued currency-driven inflation in several markets. Political and economic instability in several countries tempered category growth. Russia grew low single digits as higher pricing was mostly offset by elasticity and softer consumption due to the macro environment.

Nonetheless, we held share in our two largest categories, chocolate and biscuits.

As with Brazil, we remain cautious about the near-term operating environment in Russia, and that also continues to temper our full-year outlook.

Asia-Pacific grew almost 3%, including about a point of vol/mix growth. India, Australia, and the Southeast Asian markets all contributed. Chocolate in India was up double digits, driven by vol/mix gains and stable shares. In response to increased A&C support behind Cadbury Dairy Milk and continued momentum of our Bubbly innovation platform.

Australia was up mid-single digits behind strength in chocolate as we lapped our significant revenue management actions from a year ago and invest in marketing and innovation behind our now more profitable chocolate and biscuit businesses.

China was essentially flat. Biscuits revenue was down, reflecting the overall category slowdown. This was offset somewhat by continued double-digit growth in gum, despite a decline in that category as well. We remain cautious about China for the remainder of the year, given the soft consumer environment and category trends.

Europe continued to show sequential improvement, delivering modest growth in the quarter as price gaps narrowed and we selectively invested behind high ROI initiatives.

Notably, Europe posted positive volume mix with strength in both chocolate and biscuits behind Power Brands such as Cadbury Dairy Milk and Oreo.

Last, but not least, North America was up about 2.5%, including a couple of points of vol/mix growth. Biscuits grew low single digits, largely through higher vol/mix and share growth of Oreo, belVita, and Triscuit.

In addition, we launched Good Thins, a new biscuit innovation platform that capitalizes on consumer demand for more wholesome savory snack options. Good Thins are delicious baked crackers, made with potatoes, chickpeas, or rice, with no artificial ingredients. We launched Good Thins in March, and it has already reached a 1.4 share of the US cracker market.

Turning now to our categories, in the first quarter, overall category growth was about 4%. However, given the timing of Easter, retail consumption shifted somewhat from Q2 into Q1. Excluding the Easter shift impact, overall category growth was roughly 3%.

Our organic growth was about a point below our categories, due primarily to our revenue management actions. Importantly, as I mentioned earlier, our Power Brands grew about 4%, in line with our categories, and drove significant margin expansion.

Net net, building on our Q4 momentum, about 65% of our snacks revenue gained or held share in the first quarter.

Let's look at our performance in each of our categories. Biscuits grew about 2.5% with notable strength in the US and the UK. Our share performance was also strong with around 80% of our biscuits revenue gaining or holding share. Our biscuits Power Brands grew mid-single digits, led by Oreo and belVita.

In chocolate, our revenue reflected strong growth in the UK, India and Australia, as the markets adjusted to our pricing action. This was partially offset by soft results in Brazil and Russia. Together, these two markets tempered our overall chocolate growth by more than 1.5 points.

Shares were solid with about half of our chocolate revenue gaining or holding share. We are pleased to see our momentum improving as price gaps narrow and our targeted investments pay off.

Our performance in the UK was especially strong and a sharp turnaround from our share losses through most of 2015. We increased share by nearly a point behind increased A&C support and innovation such as Cadbury Dairy Milk Big Taste and Cadbury Dairy Milk Medley.

In Germany, our share decline in the quarter was due solely to cycling the impact of the revenue management actions we implemented in the second quarter last year. As a result, this is the last quarter of impact related to those actions.

Gum and candy revenue increased almost 3%, led by strong growth of gum in Mexico and China and Sour Patch Kids candy in the US. About 60% of our gum and candy revenue gained or held share with gains in Mexico, China and France.

While we remain disappointed by continued aggregate gum share declines here in the US, we are encouraged to see both Trident and Dentyne growing. In addition, we will be implementing a Stride turnaround plan later this year.

To summarize, we are pleased with our first-quarter results. We delivered solid top-line growth and share performance with improving vol/mix, despite continued volatility in some of our largest emerging markets. Our solid top line, together with strong delivery, productivity, and cost savings, which Brian will describe in a moment, provide a good foundation for delivering our full-year forecast.

Before I conclude, however, I would like to pause for a moment to share a few thoughts about Mark Clouse, our Chief Commercial Officer. As you saw in today's press release, Mark will be leaving our Company in a few weeks to become CEO of Pinnacle Foods. Mark is a talented executive and a natural leader, who has made significant contributions to every aspect of our business over the last two decades, most recently as our Chief Commercial Officer. Mark has proven that he is ready for this next step in his career. We thank him and wish him and his family all the best.

While, of course, we will miss Mark, we have a deep leadership team, and I am confident that they will continue to execute flawlessly. We will take this opportunity to further simplify and streamline our organization, and so we won't be backfilling the Chief Commercial Officer role.

With that, let me turn the call over to Brian.

Brian Gladden (CFO):

Thanks, Irene. Good morning, everyone.

Building on Irene's comments, we delivered strong margin expansion and earnings growth, despite the continued challenging environment. Adjusted gross margin increased 170 basis points to 39.7%.

Please note that this includes absorbing a 50 basis point headwind related to commodity and currency hedging contracts that don't qualify for hedge accounting treatment. Our gross margin expansion was driven by net productivity of more than 4% of cogs. That is up from about 3.5% last year and reflects continued progress as we implement integrated Lean Six Sigma and strong execution of our supply chain reinvention program, including installing our state-of-the-art lines of the future around the world.

In fact, we will have four additional lines operational in our Salinas, Mexico facility by year-end. Complementing the seven lines already in place there.

You may have also seen that we opened our latest greenfield plant in India on Monday. This plant will produce approximately 60,000 tons of Cadbury Dairy Milk chocolate annually to start. By 2020, this multi-category food campus is expected to reach annual capacity of 250,000 tons.

Adjusted OI margin was 15.1%, up 240 basis points. Drivers of the improvement include the gross margin expansion, as well as overhead reductions as we continue to drive ZBB cost savings. We did benefit from the timing of some overhead spending in the quarter that will negatively impact our second quarter, but we are fully on track to deliver our targeted cost savings related to indirect cost packages and the migration of back office processes to global shared services.

We also increased A&C support to more than 9% of revenue to support our Power Brands and drive profitable growth over the long-term.

Our cost reduction efforts drove margin improvement across all of our regions with the exception of Latin America, which was affected by the tough environment in Brazil. In both North America and Europe, the margin improvement was driven by strong net productivity and reduced overheads, offset by stepped up A&C investments to fuel growth.

In North America, adjusted OI margin grew 260 basis points to 20.3%, and in Europe margins were up 390 basis points to 19.7%. As you know, North America and Europe have expanded margins by more than 500 and 600 basis points respectively since the end of 2013.

In EEMEA, margin was 11.5%, up 770 basis points versus what was an easy compare. As you may recall, in the first quarter of 2015, price increases were insufficient to cover the sharp increases in currency-driven input costs. In this quarter, strong net productivity, favorable vol/mix, and overhead reductions were the key drivers of our margin expansion.

In Asia-Pacific, margin expanded 310 basis points to 16.1%. This was driven by continued productivity improvements, as well as overhead reductions. In Latin America, given the challenging macroeconomic environment in Brazil, margins declined 260 basis points to 10.5%. This was largely due to unfavorable vol/mix in currency, which more than offset significant cost reductions.

Now turning to EPS. Adjusted EPS was $0.48, up 31% on a constant currency basis. The increase was driven by $0.07 of operating gains, including a negative $0.02 impact from mark-to-market and a negative $0.01 from calendar adjustments.

Below the operating line, EPS increased $0.05 as lower interest expense, the benefit from a lower share count, and lower taxes more than offset the dilution from the coffee deal. Our coffee investments in both JDE and Keurig had solid quarters and delivered in line with our expectations.

In the quarter, we returned $1.5 billion of capital to our shareholders. Specifically, we paid out about $270 million in dividends and purchased $1.2 billion of stock or nearly 29 million shares at an average price of about $41. This amount includes the remaining $500 million of cash received as part of the JDE coffee deal that we committed to use for repurchasing stock.

In addition, we opportunistically accelerated a portion of our 2016 buyback program into the first quarter. We continue to expect to buy back approximately $2 billion of stock for the year.

Now turning to our outlook. Given our strong start to the year, we remain confident in our ability to deliver on our 2016 outlook and are reaffirming our outlook today. Specifically, we continue to expect to deliver organic revenue growth of at least 2%, adjusted OI margin of 15% to 16%, which is an expansion of at least 200 basis points this year, double-digit adjusted EPS growth, and at least $1.4 billion of free cash flow.

In addition, based on recent spot rates, we expect less of an impact from currency translation. For revenue, we expect currency to be a 3 percentage point headwind, down from 6 points. And for EPS, we estimate a $0.05 headwind, down from $0.13.

We've also updated a couple other items to help with your financial models. We currently estimate that our interest expense will be $625 million to $650 million, down about $25 million from our previous estimate. Due to some discrete items in the first quarter, we now estimate our full-year 2016 tax rate will be in the low 20s%, down from the low to mid 20s% in our prior outlook.

While we are not providing quarterly guidance, I would like to call out a few items to keep in mind as you think about our second quarter. First, Q2 is typically our lowest margin quarter, given seasonally lower revenues.

Second, as we mentioned earlier, our first quarter benefitted from the timing of some overhead spending, which will pressure our second quarter.

Finally, as you may know, collective bargaining agreements covering eight US facilities expired at the end of February. The affected employees have been working without a contract since that time, while we continue to bargain in good faith with the union. We have shared our last, best and final offer with the union. We believe it is fair and the right solution for both our employees and our business. Until we reach an agreement, we expect to incur some one-time costs as we continue the negotiation. While executing business continuity plans for our North America business.

Despite these short-term items, we are executing well and are confident in our business momentum and our ability to deliver on our full-year commitments.

So to wrap up, we are pleased with our strong results in the first quarter. We delivered significant margin expansion, solid organic revenue growth and share performance with Power Brands up 4%, positive vol/mix growth in developed markets, and increased investments behind our Power Brands and innovation platforms.

We also returned $1.5 billion to shareholders.

While we remain cautious about the volatile operating environment, we are on track to deliver our 2016 outlook, as well as our adjusted OI margin target of 17% to 18% in 2018.

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

QUESTIONS & ANSWERS

Operator:

(Operator Instructions)

Chris Growe, Stifel.

Chris Growe (Analyst - Stifel Nicolaus):

I just wanted to ask -- and I think I heard a number of points that are worth mentioning, but in terms of the strong first-quarter performance, both EPS margin and even revenue growth, as we think about the full-year guidance, I think I heard a little bit of caution on Brazil, on Russia, on China, as well as some of the timing of overhead spending that can be moving margin around a bit. But I wanted to understand the rationale for holding guidance where it is, and maybe just to answer my own question with those different points there, but are those the ones that are kind of keeping you from being more aggressive with the full-year outlook, in particular on the margin side?

Brian Gladden (CFO):

Yes, Chris, I think -- look, we are very happy with the start, and I think it really does give us confidence as we think about the year. But it is just one quarter in an environment where I think it makes sense to be prudent. You have got an operating and currency environment that is pretty volatile. Consumer demand is somewhat soft. It is soft especially in emerging markets. And then we have got a lot going on in the transformation agenda.

So while we are executing well and we are doing the things that we can control, at least they are on track, I would just say that the first quarter gives us a nice foundation to feel confident about the year. And we will leave it at that.

Chris Growe (Analyst - Stifel Nicolaus):

Okay. And just a quick follow-up for you. In relation to the -- vol/mix was a little stronger than I thought in the quarter, and you made some comments about elasticity in some markets. I just wanted to get a sense of maybe you can characterize the pricing environment and price in particular to currency driven-cost inflation. And just the competitive response. Are there markets we should watch out for where you are taking prices up, but competitors have not moved yet, for example?

Irene Rosenfeld (Chairman & CEO):

No. Actually, Chris, I think a big part of the strong vol/mix performance that you are seeing is that we have now gotten a lot of that behind us. Our gaps are closing. We have continued to invest in our franchises, particularly our Power Brands, and that is playing itself through in vol/mix, as well as in our share performance.

I think the markets that we have called out like Russia, like Brazil, that remain quite challenging from an inflationary and currency standpoint, are the places where there probably will continue to need to be some pricing. But, for the most part, most of that pricing is behind us, and that gives us great confidence with the foundation that we have built.

Operator:

Andrew Lazar, Barclays.

Andrew Lazar (Analyst - Barclays Capital):

I had just two quick things from me. First off, Brian, in the guidance around full-year margins, you reaffirmed the 15% to 16% range, but I think on the fourth-quarter call, you had specifically pointed to the low end of that range because you had deconsolidated Venezuela at the time. So that wasn't mentioned again this time. Is that just because of the better start around margins to the year, or am I just making more of it than I should?

Brian Gladden (CFO):

No. I said, it is about a 200 basis point margin improvement, is what we are expecting, and that is the current outlook. So that does put you at the lower end of that range, and it is 200 basis points. So we feel pretty good about that. No change. No change.

Andrew Lazar (Analyst - Barclays Capital):

Okay. And then, Irene, you had mentioned that, excluding these strategic actions that you have taken on the top line, that you are growing about in line with your categories globally. Does that mean that, even though Easter was a benefit to global category growth by about a point, that it was not much of a benefit to Mondelez? (multiple speakers)

Irene Rosenfeld (Chairman & CEO):

Andrew, the simple answer is there is a difference between consumption and shipment. So Easter was essentially only a week earlier. So most of our shipments last year were in the first quarter. It doesn't change that much. But, obviously, the consumers' purchasing pattern happens within a week or so of the holiday. So you are going to see the impact. Our consumption was closer to the overall category growth, but our shipments don't reflect that. One, because of revenue management, but, two, because it didn't have that much of an impact on our shipments to our customers.

Andrew Lazar (Analyst - Barclays Capital):

Okay. Got it. And then, the sustainability of developed markets volume that you saw and the improvement in -- clearly, in the first quarter, there was an easier comparison in Europe in the year ago. There was a competitive recall in parts of Europe as well. So I am just trying to get a sense of your level of visibility and comfort that developed markets volume can kind of remain more sustainably in positive territory as we go forward.

Irene Rosenfeld (Chairman & CEO):

No. We feel very good about the underlying momentum in our developed markets. Strong vol/mix performance, as well as -- they were doing that while Europe is up 400 basis points and North America up almost 300 basis points. So I feel very good about the work that they -- the hard work that they did over the course of the last year to get the business fit to win and then the opportunity now to build on top of that base. So I think the underlying momentum that we are seeing is solid and will continue for the balance of the year.

Brian Gladden (CFO):

Andrew, that was improving in the second half of last year as well. So it is not surprising.

Irene Rosenfeld (Chairman & CEO):

Yes. It is not a totally new phenomenon.

Operator:

Bryan Spillane, Bank of America .

Bryan Spillane (Analyst - BoA Merrill Lynch):

Just wanted to follow-up on Andrew's question, just in terms of building organic sales growth over the balance of the year because the comparisons get a little more difficult balance of the year, and it sounds as if maybe Brazil, Russia, China, from a macro perspective, a little bit weaker than maybe what you were planning going into the year. And I am not sure how we should think about Nabisco, if there is some contingency or some potential disruption we have to factor in in terms of balance of the year organic growth.

So, if you could just talk through, A), our net, your view in terms of the macro, the same, better, or worse than they were going into the year, and then where we should look for drivers to get to that organic sales growth over the balance of the year, given that the comps get a little bit more difficult? Thanks.

Irene Rosenfeld (Chairman & CEO):

Well, Bryan, again, the comps do get more difficult, but in part it was because we began -- as Brian said, we began to make investments. We got a lot of the pricing behind us as we were in the back half of last year. And so the foundational things that we are doing in terms of reinvesting in high ROI, marketing initiatives and continuing the expansion of some of our proven innovation platforms, all of that is in place.

As you saw in the first quarter, our A&C is up over 9% of revenue. We are continuing to invest in our key franchises, and that will just continue as the year progresses. So yes, we have a headwind from some of these more volatile emerging markets. But, as we said in our -- as I said in my remarks, we feel pretty comfortable that we have accounted for those against the stronger momentum that we should see everywhere else.

Bryan Spillane (Analyst - BoA Merrill Lynch):

And just -- Nabisco, should we be -- or North America, should we just be thinking or having to factor in some sort of probability or chance that there is some disruption? Just trying to figure out how to accommodate that or factor that in.

Brian Gladden (CFO):

Yes. Brian, I guess it is hard to predict where the negotiations go, and the magnitude of an impact would really depend on the outcome of those negotiations.

I think, as I said, we will encourage incur some one-time costs, but that is about building business continuity, capability, and being ready. We are trying to strike a balance, I would say, between the inventory necessary and a business continuity plan, but also the incremental costs.

So we have taken into account in our plans the possibility of disruption, but, again, we will plan accordingly, and we will deal with that as it happens. But it is hard to predict where that goes.

Operator:

Jason English, Goldman Sachs .

Jason English (Analyst - Goldman Sachs):

First, a couple housekeeping items for you, Brian. Thank you for all the detail on the guidance. I am wondering -- you didn't touch on was the equity income line. It came in a little bit stronger than we were expecting. How should we think about that line item in the P&L as we move forward?

And then, also, sticking below the line, interest expense, 2% was a bit lower. Your guidance suggests it is going to step up. I guess the question there is why. Was there something unique about interest expense, a benefit that is not going to continue on the forward?

Brian Gladden (CFO):

Yes. On the equity income line, as I said, the two larger investments there, JDE and Keurig, both delivered in line with our expectations, maybe a little bit better in the quarter. I don't see anything that changes our expectation for the year. They are delivering on commitments, and I don't think that changes at all.

Interest expense, as I signaled in the comments, we are telling you it goes down by about $25 million for the year. It reflects the lower run rate we are seeing in some of the finance -- refinancing activities we had in the first quarter and a little bit of currency. We are not necessarily dropping that through in terms of the outlook, but it does provide a little bit of an opportunity there.

Jason English (Analyst - Goldman Sachs):

Got it. That's helpful. And can you enlighten us on what your expectations are for the equity income line? I don't think you -- if you touched on it previously.

And then, the second question goes back to the comments on trade budget optimization that I think you introduced on the last call. I am just curious if you could give us an update on how those plans are progressing, if we are at a stage where there has been any deployment of different strategies or tactics, and what the learning has been so far?

Brian Gladden (CFO):

Yes, I will take the first part. On JDE and Keurig, we provided a page in the web deck that gives you the pieces to estimate that for the year. Nothing has really changed with that. And, again, these are private companies. We don't plan on providing a lot of visibility to the ongoing performance or the details of that.

Jason English (Analyst - Goldman Sachs):

Yes.

Irene Rosenfeld (Chairman & CEO):

With respect to revenue management, Jason, we think the opportunity is sizable, particularly on the trade side, and particularly as we think about increasingly focusing on our Power Brands and on our high return activities.

The challenge, of course, is the pace of implementation because it does have an impact in the short term, typically on volume, on share, on customer relationships, and so our approach remains to strike the right balance among all of those variables. But I am quite confident you will continue to see the benefits of that playing through our margin profile.

Jason English (Analyst - Goldman Sachs):

Yes. Got it.

Operator:

Robert Moscow, Credit Suisse.

Robert Moscow (Analyst - Credit Suisse):

A question about category growth in biscuits. In prior quarters, you have shown a slide showing the global category growth rate, and I don't think I see it here. But last quarter you said it was 7%. And if you are gaining share in 80% of your categories this quarter, the implication is that the category has slowed substantially. I wanted to know, could you give us a little color on that? Is that just kind of inflationary pricing in 2015 that just isn't happening now in 2016, or is there something else happening for the category in biscuits that we should know about?

Irene Rosenfeld (Chairman & CEO):

Well, good question, Rob. I would tell you that probably the single biggest impact on the overall category growth is the US. It is our biggest biscuit market, and we did see that category slowing down. There is a lot of factors that contribute there. Some of our biggest customers are changing some of their merchandising policies, which is having an impact. I think we are still performing quite well within those constraints, but it is having somewhat of an impact on our overall performance.

So I think the facts are, our revenue in aggregate in North -- our biscuit revenue in North America was up almost 3%. Very strong vol/mix, but the category itself was a little weaker than we had seen, and our approach to that is just to continue to invest in our strong brands, to continue to introduce innovation like Oreo Thins and Good Thins which are driving very strong results, and continuing to leverage the fact that we have got much more flexibility in our packaging capability as a result of the addition of assets like Salinas.

So we are clearly in charge of the category performance here in the US, and we have very strong plans in place to continue to drive that. So I would not read anything more than that into these results.

Robert Moscow (Analyst - Credit Suisse):

Appreciate the color. One quick follow-up. Could you give us more specifics on what this overhead shift into second quarter is? Why would it shift from first quarter into second quarter, Brian?

Brian Gladden (CFO):

It is just simply the timing of some spending that we would have initially, probably, expected in the first quarter that is sliding into the second quarter. So we saw a little bit of a benefit on our SG&A in Q1, and it will be a little bit of a headwind in Q2. Total year doesn't change at all.

Operator:

Matthew Grainger, Morgan Stanley .

Matthew Grainger (Analyst - Morgan Stanley):

I just had two questions. First, you have talked in recent quarters about the potential to begin to rebuild margins in some of your key emerging market regions, and I think the expectation was that this could be more of a 2017 and 2018 dynamic. We are still seeing headwinds in Eastern Europe, Latin America, (inaudible) Asia. During the quarter, margins were covered pretty sharply and read an all-time high at around 16%. So just curious, Brian, what drove the margin performance there? Whether that was market mix or more sustainable recovery that we could see carry forward through the year?

Brian Gladden (CFO):

Well, I think it starts with ultimately getting the pricing right, which is, clearly, what is driving EEMEA and Latin America in the short term. But I do think it is the fundamental work that we are doing on getting net productivity to flow through and gross margins improving, while these regions are also doing ZBB and implementing shared services and all the things that are helping us reduce overhead.

So the fundamental cost structure in the regions has gotten better. If we can get pricing right in the markets, we will see improvement there. And that is what we saw in both EEMEA and Asia-Pacific in the quarter, and Latin America was really the pricing challenge and the currency dynamics in Brazil that hurt us. So good progress there, but it is the same fundamental game plan and initiatives that are driving margins everywhere.

Matthew Grainger (Analyst - Morgan Stanley):

Okay. Thanks. And, Irene, I wanted to come back to the Good Thins launch and just get a better sense of how you are thinking about the rollout and the marketing resources there. I know it is still early so we probably haven't seen a huge amount in the marketplace yet, but should we expect to see a stepped up big bet on A&C, or is this the case where you're going to be working more with social media and building out gradually?

Irene Rosenfeld (Chairman & CEO):

No, we have accounted for it in the context of our overall A&C. We are getting very good returns on our investments behind our Power Brands in the US, and we are going to continue to make those investments. So it is accounted for in our aggregate budget. We are very pleased with the early response both from our customers and from our consumers. As I mentioned, it is a [1:4] share after just a couple of weeks in the market. And so we will support it, but it is accounted for in the overall A&C targets that we have given to you.

Operator:

David Palmer, RBC Capital Markets.

David Palmer (Analyst - RBC Capital Markets):

You mentioned that you remain cautious about the volatile economic environment. I was wondering if you could give more color about the trends you are seeing in markets like Russia and Brazil. And, of course, you have the benefit of seeing dollars and volume by week and month. And are you seeing that -- the decline rates stabilize, or is that volatility or the deterioration in recent months just making it too difficult to make a call about the bottom in (inaudible)? Thanks.

Irene Rosenfeld (Chairman & CEO):

David, it is a little hard to tell you, are we at the bottom. What we are seeing is certainly worse than what we are seeing last year, and our team is managing through it. There is a little bit of a different situation in Russia versus Brazil, but they are both inflationary markets that are causing us to have to price, and it is having some impact on our categories and on consumer demand.

So we do remain cautious about the operating environment in both of those markets. We don't see any near-term catalyst. Too much of a change. But we are also not expecting it to get dramatically worse.

So, again, as I said in my remarks, we believe we have accounted for it in the outlook that we are giving to you, but it is one of the reasons that we are being cautious as we think about our outlook for the future.

David Palmer (Analyst - RBC Capital Markets):

And then, just a quick follow-up on Europe. Can you give some color about the improving trends there? Is this really all about the competitive price gaps? And with the comparison (inaudible) in Germany, does it feel like you are turning the corner after this first quarter? Thanks.

Irene Rosenfeld (Chairman & CEO):

The simple answer is yes. We have taken a number of steps in Europe to get ourselves fit to win, and I am very pleased with the progress that the team has made. Without a doubt, we took a very significant revenue management action in Germany last year. We will lap that as we exit the second quarter. And the rest of our business, I am actually quite pleased to see strong performance on our chocolate business in Germany, ex that customer. We have gotten a terrific response to the incremental investments we have made in our UK chocolate business where our shares are up almost a point in that geography. Our Power Brands are performing well. So I think we needed to reset our base and address the cost impact on our P&L. We have done that, and you are seeing their impact in our gross margins, our operating margins, as well as a return to growth in the region.

Operator:

Ken Goldman, JPMorgan .

Josh Levine (Analyst - JPMorgan):

It is Josh Levine on for Ken. Irene, you mentioned strong productivity that drove the gross margin improvements in the quarter. Can you help us think about the drivers to the gross margin in more detail? Specifically maybe how much came from new plants, inflation, SKU rationalization that may have gone over and above your typical productivity plans? Just any help you can offer about how sustainable those gains were would be great. Thanks.

Irene Rosenfeld (Chairman & CEO):

Simple answer, Josh, is that they are quite sustainable. The bulk of that net productivity is just coming from some of the fundamental work we have done with our teams on Lean Six Sigma and the improvements that we are seeing as a result of that. And that is a gift that keeps giving.

We certainly are beginning to see some of the benefits of the 40-plus Lines of the Future that are operating around the world, and that is part of the algorithm that allows us to have great confidence, not only about our margin targets for this year, but the 2017 to 2018 target that we have given to you as well.

So it is a combination, but the bulk of it is driven by fundamental execution of our productivity programs around the world and we are very pleased with that performance.

Josh Levine (Analyst - JPMorgan):

Thanks. And maybe just one quick follow-up. There had been some recent news about you being in negotiations to sell a bunch of brands and some plants in Europe. I guess just comment on some of the strategies there, some of the reasons for it, and then, to what extent maybe we could see more of that in the future. Thanks.

Brian Gladden (CFO):

Yes. Look, we continue to focus on Power Brands as a priority, and clearly there are some opportunities as you look at parts of our portfolio. We have an announced transaction that was in the press, involving parts of our French business we sold to Eurazeo, which, for us, these are a very rational set of actions that are consistent with our agenda here.

So we focus on Power Brands and our portfolio. We simplify our supply chain and allows us to invest behind the brands that have the highest returns.

So that transaction is something that will likely close in 2017 as we get through regulatory approvals and (inaudible) and all the things that go with that. But I would say that is just part of what we are doing as we think about focusing on Power Brands. And there could be more opportunities like that, but nothing to talk about today.

Operator:

Alexia Howard, Bernstein.

Alexia Howard (Analyst - Bernstein):

Can I ask about the advertising spending? You talked about it being above -- the A&C spending being above 9%. How much was that up year on year, and what is the outlook for subsequent quarters in the year? Is it going to be up more or perhaps less going forward?

And maybe just to touch on innovation. Where are the big white space opportunities that you are really getting your teeth into this year? What are the main applications of the innovation pipeline in terms of new products at the moment?

Thank you and I will pass it on.

Irene Rosenfeld (Chairman & CEO):

So, first of all, with respect to A&C, our -- A&C is up about low single digit, mid to low single digits, and again it is part of our overall plan to continue to improve our share of voice. You will see that going up for the full year. So there is nothing anomalous about the first quarter, and we are very pleased that, given the strong performance that we are seeing on our margin improvement, we have the opportunity not only to drop that money to the bottom line, but also to reinvest in areas that get a good return for us.

With respect to innovation, we continue to have a very strong portfolio of platforms, and you will continue to see us take those ideas around the world. And so, for example, Oreo Thins, started in China. We have expanded it to the US, Canada, now into Australia. It is going to be about a $200 million business for us this year. belVita Crunchy we started in many markets with a soft version. We now have a hard version. We call it belVita Crunchy. That is going to be about $500 million for us this year as we expand into a variety of different markets.

We have a number of innovations on our Cadbury Dairy Milk and Milka franchises that we are taking around the world. So net net, we have been seeing a double-digit contribution to our revenue growth from these innovations, and you will see that continue and a portion of our investment as I talk about spending in the 9% to 10% range on A&C. A portion of that is in support of those franchises.

Operator:

Dave Driscoll, Citigroup .

Dave Driscoll (Analyst - Citigroup):

Thank you for squeezing me in here. I appreciate it. So I had two questions. The first one was just on the constant currency outlook of 2% or better. Can you talk a little bit about the components of price and volume? I would assume that because foreign exchange pressures are lower, you don't need to take as much pricing as you were previously contemplating. So would it mean that the price piece has come down and then commensurately you would expect volumes to go up because of elasticities, positive elasticities?

Irene Rosenfeld (Chairman & CEO):

Simple answer is yes, David. So (multiple speakers).

Dave Driscoll (Analyst - Citigroup):

All right.

Irene Rosenfeld (Chairman & CEO):

As we said to you, our long-term algorithm is a much better balance between pricing and vol/mix. We were very skewed in these last two years or so because of the very significant impact of currencies, as well as some of our imports like cocoa.

As we move forward, we should see a much different relationship, and I think you are starting to see the impact of that play through in our first quarter. As you can see, pricing is a lesser impact, and we are starting to see -- even though vol/mix in aggregate is still negative, it is an improved trend, and certainly I am very pleased to see three of our five regions with positive vol/mix.

Dave Driscoll (Analyst - Citigroup):

Maybe, Irene, just to say this. But since the 2% number doesn't change, then it has almost got to be like offsetting effects that go on. Pricing comes down, volume goes up. And I just wanted to be clear that that is, in fact, how to think about this thing. And I know you guys put the plus sign by the 2%, so we never really know exactly what the figure is.

But the right answer here is that you would see whenever pricing doesn't come down or however much it is lower than the previous estimate, the volume elasticity will make up for it.

Dexter Congbalay (Investor Relations):

Hey, David. It is Dexter. Just kind of quick clarification. Currently, you may recall that in developed markets this year, we said was going to be positive vol/mix for the year, and emerging markets, excluding Brazil and Russia, would be positive for the year. Including Brazil and Russia, emerging markets volume would be negative. We really think of a total Company view, but yes, you are right. The pricing benefit, obviously, should be much more muted than it was last year given the currency dynamics and the commodity dynamics, and trends in vol/mix will definitely improve versus last year as well. And you started to see that play through in the first quarter.

Dave Driscoll (Analyst - Citigroup):

Okay. And then, Brian, just one question for you. But it is -- it might be a fascinating question here. Do you have an assessment on what the impact is to Mondelez from the new treasury rules that were issued on April 4? It seems like there is three areas that there could be some impact, whether it is tax rate, share repurchase or cash repatriation. Do you have any assessment for us on any impacts from those new treasury rules?

Brian Gladden (CFO):

David, what I would say is, we continue to work through that. I would tell you that, as we work through it, from a tax rate standpoint for modeling purposes, we don't anticipate any impact. There are some other things, as you have mentioned, that we will continue to work through and gain a better understanding of how they may affect us. But nothing to share at this point.

Operator:

I will now turn the call back to management for closing remarks.

Dexter Congbalay (Investor Relations):

It is Dexter. Thanks for joining the call this morning. Be happy to take any further calls or comments as the day -- the rest of the week and, of course, over the course of the day. And I will be around to take any calls. Thank you, again.

Operator:

This concludes today's conference call.