Mondelez International Inc MDLZ (NAS) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
37.00 USD	42.00 USD	29.40 USD	56.70 USD	Medium	Wide	Stable	Standard	Consumer Packaged Goods

Investors Should Sweeten to Wide-Moat Mondelez's Lagging Valuation

See Page 2 for the full Analyst Note from 31 Mar 2015

Erin Lash

erin.lash@morningstar.com
+1 (312) 384-5435

The primary analyst covering this company does not own its stock.

Research as of 31 Mar 2015
Estimates as of 23 Mar 2015
Pricing data through 06 Apr 2015
Rating updated as of 06 Apr 2015

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Investment Thesis 23 Mar 2015

Mondelez's portfolio includes several well-known brands (nine of which produce annual sales in excess of $1 billion, including Oreo, Cadbury, Nabisco, Trident, and Tang). It operates as a leading player in the global confectionery space, with 15% share of the chocolate market, 30% of the gum category, and 7% of the candy aisle. In addition, Mondelez holds dominant share of the biscuit category--controlling 18% of the market, far in excess of Kellogg (4%) and Campbell Soup (3%)--as well as leading the powdered beverage arena (16%). This, combined with its expansive distribution platform (with 40% of sales resulting from emerging markets, 40% from Western Europe, and 20% from North America), has afforded Mondelez a wide moat.

However, self-inflicted missteps in Brazil, Russia, and Canada combined with persistent challenges in its gum business since becoming an independent organization more than two years ago have challenged Mondelez. For instance, China (a $1.1 billion business, representing 3%-4% of total sales), has been a disappointment, with sales retreating during the early part of last year due to weak biscuit performance and retailer destocking. Beyond sluggish sales (which on a consolidated basis failed to reach its initial 5%-7% long-term target that has since been revised to just target growth in excess of the market), activist investor Nelson Peltz has become more vocal regarding the firm's lagging profitability. As such, management is working to cut excess fat from the organization, which we believe will prop up profits longer term.

Management's penchant for reshuffling assets to create value is also undeniable though. Last year, Mondelez announced intentions to combine its coffee brands-- like Jacobs and Tassimo, among others--with D.E Master Blenders 1753 to create a leading coffee player. We believe this will enable Mondelez to focus its resources on the attractive global snack category, which will account for around 85% of its business after the coffee divestiture. However, we wouldn't be surprised to see Mondelez look to part ways with other areas in its European grocery operations, such as cheese, given the tough competitive landscape.

Vital Statistics

Market Cap (USD Mil)	61,031
52-Week High (USD)	39.54
52-Week Low (USD)	31.83
52-Week Total Return %	8.8
YTD Total Return %	2.3
Last Fiscal Year End	31 Dec 2014
5-Yr Forward Revenue CAGR %	0.3
5-Yr Forward EPS CAGR %	9.8
Price/Fair Value	0.88

Valuation Summary and Forecasts

Fiscal Year:	2013	2014	*2015(E)*	*2016(E)*
Price/Earnings	15.2	22.3	*21.0*	*19.5*
EV/EBITDA	14.1	15.1	*14.5*	*13.8*
EV/EBIT	17.7	19.2	*18.2*	*17.2*
Free Cash Flow Yield %	8.0	3.2	*-6.2*	*3.2*
Dividend Yield %	1.6	1.6	*1.4*	*1.5*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2013	2014	*2015(E)*	*2016(E)*
Revenue	35,299	34,244	*30,924*	*31,287*
Revenue YoY %	0.8	-3.0	*-9.7*	*1.2*
EBIT	4,214	3,934	*4,175*	*4,427*
EBIT YoY %	14.4	-6.6	*6.1*	*6.0*
Net Income, Adjusted	4,152	2,780	*2,972*	*3,102*
Net Income YoY %	35.3	-33.0	*6.9*	*4.4*
Diluted EPS	2.32	1.63	*1.76*	*1.90*
Diluted EPS YoY %	35.3	-29.9	*8.4*	*7.5*
Free Cash Flow	6,237	2,259	*1,715*	*2,676*
Free Cash Flow YoY %	75.3	-63.8	*-24.1*	*56.1*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Following the spin-off of its North American grocery operations in the fall of 2012, Kraft's global snacks business was renamed Mondelez International. The firm is a leading player in the global snacks arena, with a portfolio that consists of biscuits (34% of sales), chocolate (27%), beverage (16%), gum/candy (14%), and other (9%). Mondelez operates with well-known brands like Oreo, Chips Ahoy, Halls, Trident, and Cadbury. The firm derives around 40% of revenue from developing markets, 40% from Western Europe, and 20% from North America.

Mondelez International Inc MDLZ (NAS) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
37.00 USD	42.00 USD	29.40 USD	56.70 USD	Medium	Wide	Stable	Standard	Consumer Packaged Goods

Morningstar Analysis

Investors Should Sweeten to Wide-Moat Mondelez's Lagging Valuation 31 Mar 2015

Stagnant sales growth and lagging profits have plagued Mondelez, but we think concerns surrounding the firm's ability to prop up results have created an interesting buying opportunity for the shares, which now trade at an attractive discount to our $42 fair value estimate--a price/fair value of 0.86 and forward price/earnings multiple of 23 times.

An expansive global network--with 80% of revenue derived outside North America--and a portfolio of well-known brands (nine of which generate annual sales of more than $1 billion each) have allowed Mondelez to earn a wide moat. With low private-label penetration (private-label competition is minimal in confectionery, at just 5% of the overall industry versus the approximate 20% share private-label offerings maintain in the total food and beverage landscape) and strong brand loyalty, Mondelez's focus on the attractive global snack category is a plus. In addition, we believe its strong brand portfolio gives Mondelez negotiating leverage with retailers.

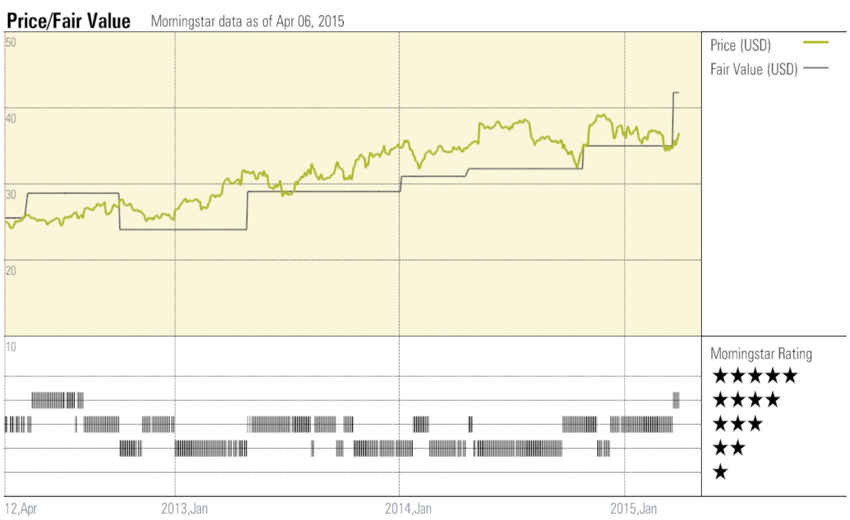
More important, the firm invests to support its brand intangible asset, spending nearly $2 billion, or 6% of annual sales, on research and development and marketing. This spending is yielding measurable improvements, as sales generated from new products launched in the past three years amounted to 13% of total revenue in 2014. We continue to believe that Mondelez will benefit from new products, as well as its developing-markets platform, and forecast annual sales growth north of 4% longer term. Furthermore, we think Mondelez possesses the ability to leverage its global scale. Its prospects for margin improvement are supported by the fact that the majority of its production lines haven't been updated in more than 60 years, signaling the degree of cost savings that could be in the cards. We expect operating margins will increase to the midteens over our explicit forecast, which is in line with other efficiently run global packaged food firms.

Mondelez is not without its share of headwinds, such as erratic changes in commodity prices, a more pronounced slowdown in emerging-market economies, and unfavorable exchange rate fluctuations. We aren't blind to the fact that foreign exchange will take a bite out of sales and profits this year (11% and $0.31 per share, respectively), but we don't believe this reflects the firm's underlying business fundamentals and we anticipate foreign currencies will ebb and flow over time. In addition, the firm has referenced the pushback it has received from retailers (particularly those in France) surrounding recent pricing actions and intends to rationalize its product set and distribution to focus on the highest-return opportunities, which will probably negatively affect sales growth by 100 basis points this year. We think this illustrates the dynamic relationship between retailers and consumer product firms, but we view these efforts as prudent, given the competitive environment in which Mondelez plays.

Despite these challenges, Mondelez boasts returns on invested capital in excess of our 7% cost of capital estimate; we anticipate it will continue generating excess returns for shareholders for a long time--our forecast calls for returns to average 13% over the next five years. Further, we forecast free cash flow will average around 7% of sales annually over our 10-year explicit forecast. We anticipate that reinvesting in the business while pursuing additional merger and acquisition targets will take top billing over the next few years. Even with the firm's vast global presence, we believe the opportunity to expand its footprint into untapped markets like Indonesia and Germany could be in the cards. We also think returning excess cash flow to shareholders--in the form of increased dividends and share repurchases--will be slotted as another priority for cash. We forecast that the company will increase its shareholder dividend (which currently yields less than 2%) in the high-single-digit range annually through fiscal 2024. After the close of its coffee divestiture, which is slated for the third quarter, Mondelez

Mondelez International Inc MDLZ (NAS) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
37.00 USD	42.00 USD	29.40 USD	56.70 USD	Medium	Wide	Stable	Standard	Consumer Packaged Goods



will receive $5 billion after taxes and continue to hold a 49% interest in the new firm, Jacobs Douwe Egberts. Management has earmarked the bulk of this cash to repurchase shares.

Valuation, Growth and Profitability 23 Mar 2015

We're increasing Mondelez's fair value estimate to $42 per share, from $35, which implies fiscal 2015 price/adjusted earnings of 23 times. Our revised fair value is driven by the fact that we've recalibrated our capital cost assumptions to better align with the returns that equity and debt investors are likely to demand over the long run. We now assume a 7.5% cost of equity, down from 10%. This is lower than the 9% rate of return we expect investors will demand of a diversified equity portfolio, reflecting Mondelez's lesser sensitivity to the economic cycle and lower degree of operating leverage. Our pretax cost of debt assumption rises to 6.5% from 5% as we move to incorporate a normalized long-term real rate environment into our model.

While foreign exchange will take a bite out of sales and profits this year (11% and $0.31 per share, respectively), we don't believe this is reflective of the firm's underlying business fundamentals and anticipate foreign currencies will ebb and flow over time. The firm has referenced the pushback its received from retailers (particularly those in France) surrounding recent pricing actions, and as such, intends to rationalize its product set and distribution to focus on the highest-return opportunities (which will likely negatively affect sales growth by 100 basis points this year). We view these efforts as prudent given the competitive environment in which it plays. Despite this, we continue to believe that Mondelez will benefit from new products, as well as its developing-markets platform. We forecast the packaged food firm will generate annual sales growth north of 4% longer term.

Further, we think Mondelez possesses the ability to leverage its global scale to realize some margin improvement (particularly given that its operating margins lag the midteen levels generated by its packaged food peers). Its prospects for margin improvement are supported by the fact that the majority of its production lines haven't been updated in more than 60 years, signaling the degree of cost savings that could be in the cards, in our view. We anticipate that a portion of any savings generated will be reinvested in the business (in the form of both marketing support and research and development), and forecast operating margins will increase to 15% by fiscal 2018 (which is more comparable with other efficiently run global packaged food firms) and just above 16% by fiscal 2024.

Scenario Analysis

The biggest risk to our valuation for Mondelez surrounds whether the snacks business will be able to turn around its gum operation, while at the same time posting profitable growth rates in the other highly competitive categories in which it plays and generating margin improvement. As such, we assign the firm a medium uncertainty rating.

If brand investments resonate with consumers, particularly if the gum segment gains traction sooner than we anticipate, sales growth could accelerate beyond our initial expectations. Further, if Mondelez is able to better leverage its global distribution platform and input costs retreat, our current forecast may be too conservative. In this optimistic scenario, sales growth would average 3.4% annually during the next 10 years (compared with just 2.4% in our base case, which includes the pronounced hit to top-line growth in fiscal 2015 from unfavorable foreign currency movements), and operating margins would average to 17.5% over our 10-year explicit forecast (about 200 basis points above our base case). This case yields a fair value estimate of $56 per share.

However, if Mondelez's products fall flat with consumers, and if margin improvement fails to materialize (reflecting the added costs of operating as an independent business, combined with further cost inflation), our forecast could prove to be too optimistic. In this pessimistic scenario, we assume that sales growth would subsequently average just 1.4% annually over our ten-year explicit forecast, while operating margins would approximate 13% on average through 2024. This scenario yields a fair value estimate of $31 per share.

Economic Moat

As a leading player in the worldwide snacks arena, Mondelez has earned a wide economic moat due to the economies of scale that result from its expansive global network--with 80% of revenue derived outside of North America--and its portfolio of well-known brands (nine of which generate annual sales of more than $1 billion each). Following the acquisition of Cadbury, the combined firm leapfrogged Mars/Wrigley as the leading player in the higher-growth, higher-margin global confectionery industry, possessing 15% global share of the chocolate space. In addition, Mondelez holds the top spot in the biscuit aisle (with 18% share of the worldwide space, or more than four times the 4% share held by Kellogg and 3% share that Campbell Soup maintains) and the global candy category (with 7% share primarily as Halls is the leading worldwide candy brand). Over the past several quarters, management has noted the dislocation resulting from price increases it has taken to offset input cost pressures, particularly in European chocolate, and the delayed competitive response. With low private-label penetration (private-label competition is minimal in the confectionery market, at just 5% of the overall industry versus the approximate 20% share private-label offerings maintain within the total food and beverage landscape) and strong brand loyalty, confectionery tends to be a category where pricing hasn't prompted volume shortfalls over multiple quarters, as is occurring presently. We don't see this as a structural change, though, but as an indication of the competitive landscape, and we anticipate that Mondelez will drive more balanced sales growth long term. We forecast for returns on invested capital, excluding goodwill, in the midteens, which supports our stance that Mondelez has earned a wide economic moat.

Moat Trend

We think Mondelez's moat trend is stable. Confectionery offerings (which make up more than 40% of the firm’s consolidated sales) tend to be perceived as an affordable luxury, and despite the recent dislocation in Europe (whereby competitors were reluctant to raise prices in response to elevated commodity cost pressures), volumes have generally held up. Further, the firm has referenced the pushback its received from retailers (particularly those in France) surrounding recent pricing actions, and as such, intends to rationalize its product set and distribution to focus on the highest-return opportunities, which we view as prudent given the competitive environment in which it plays. Beyond these efforts, Mondelez supports its competitive advantages by reinvesting behind its brands through both marketing support (around $1.5 billion annually or 4.5% of sales) and research and development (around $450 million or 1.3% of sales), which should ensure it maintains a competitive edge. Further, even though Mondelez has

Mondelez International Inc MDLZ (NAS) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
37.00 USD	42.00 USD	29.40 USD	56.70 USD	Medium	Wide	Stable	Standard	Consumer Packaged Goods

Morningstar Analysis

dipped a toe in the faster-growing natural and organic segment with the recent acquisition of Enjoy Life Foods, we don't portend this will ultimately enhance its competitive positioning. While in general the price premium afforded to natural and organic fare seems to support a brand intangible asset, we don't view this as a sustainable source of competitive advantage and believe this pricing power may wither away if supply catches up with demand or if consumers lose confidence in the quality of these products (a possibility if the designation transcends too wide and deep to be well-regulated).

Mondelez International Inc MDLZ (NAS) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
37.00 USD	42.00 USD	29.40 USD	56.70 USD	Medium	Wide	Stable	Standard	Consumer Packaged Goods

Bulls Say/Bears Say

Bulls Say

- Private-label products have failed to meaningfully penetrate the confectionery aisle, controlling just 5% of the global market.
- Sales generated from new products launched in the past three years amounted to 13% in 2014, providing evidence of Mondelez's commitment to bringing new products to market that win with consumers.
- Aged production lines plague its manufacturing networks (particularly on its home turf), and as such, the firm is investing to upgrade its facilities, which should aid in achieving management's target of 500 basis points of margin improvement in North America by 2016.

Bears Say

- Compounding the challenges facing gum, Hershey is working with retailers to shrink gum's shelf space in favor of expanding the candy assortment, which would further delay a turnaround in the category.
- The tough economic climate is prompting consumers around the world to rein in spending, which could cause a pronounced reduction in impulse purchases of products such as chocolate.
- Mondelez pulled some products from store shelves (primarily in France) after retailers pushed back on proposed price hikes, illustrating the dynamic relationship between retailers and consumer product firms.

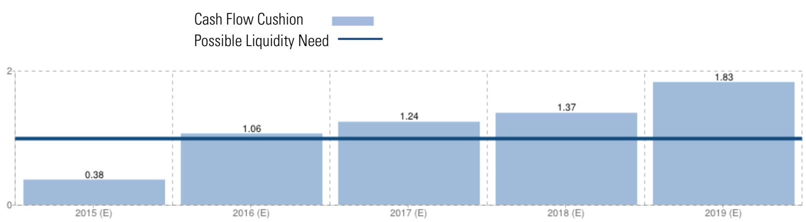
Mondelez International Inc MDLZ (NAS) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
37.00 USD	42.00 USD	29.40 USD	56.70 USD	Medium	Wide	Stable	Standard	Consumer Packaged Goods

Five Year Adjusted Cash Flow Forecast (USD Mil)

	2015(E)	2016(E)	2017(E)	2018(E)	2019(E)
Cash and Equivalents (beginning of period)	1,631	1,662	1,581	1,687	2,213
Adjusted Available Cash Flow	-479	1,853	2,211	2,860	3,091
Total Cash Available before Debt Service	1,152	3,515	3,792	4,547	5,305
Principal Payments	-1,513	-1,763	-1,498	-1,697	-1,250
Interest Payments	-737	-794	-841	-874	-874
Other Cash Obligations and Commitments	-816	-746	-722	-743	-772
Total Cash Obligations and Commitments	-3,066	-3,303	-3,061	-3,314	-2,896

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	1,631	10.4
Sum of 5-Year Adjusted Free Cash Flow	9,536	61.0
Sum of Cash and 5-Year Cash Generation	11,167	71.4
Revolver Availability	4,500	28.8
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	15,667	100.2
Sum of 5-Year Cash Commitments	-15,640	—

Financial Health

In our view, Mondelez's capital structure is manageable and appropriate. Debt maturities aren't a concern, with $1.5 billion coming due on average annually between fiscal 2015 and fiscal 2019. We forecast free cash flow will average around 7% of sales annually over our 10-year explicit forecast, implying that even at current levels, debt service should not be a concern. However, we anticipate that reinvesting in the business, while also pursuing additional merger and acquisition targets, will take top billing over the next few years. Even with its vast global presence, we believe the opportunity to expand its footprint into untapped markets like Indonesia and Germany could be in the cards.

Further, we think that returning excess cash flow to shareholders--in the form of increased dividends and share repurchases--will be slotted as another priority for cash ahead of debt repayment (particularly as activist investors like Nelson Peltz have become more critical of the firm's lagging profitability). We forecast that the company will grow its shareholder dividend (which currently yields less than 2%) in the high single digit range annually through fiscal 2024. After the close of its coffee divestiture, which is slated for the third quarter of 2015, Mondelez is to receive $5 billion after taxes and will continue to hold a 49% interest in the new firm (Jacobs Douwe Egberts). Management has earmarked the bulk of this cash to repurchase shares.

Mondelez maintains approximately $17 billion of debt on its balance sheet. Interest coverage seems adequate, though, as adjusted EBITDA should coverage annual interest expense just more than 8 times on average through fiscal 2024. We forecast that over our 10-year explicit forecast debt/capital will amount to 0.4 on average, and debt/adjusted EBITDA will approximate 2.8 times. We assign Mondelez an issuer credit rating of BBB.

Mondelez International Inc MDLZ (NAS) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
37.00 USD	42.00 USD	29.40 USD	56.70 USD	Medium	Wide	Stable	Standard	Consumer Packaged Goods

Enterprise Risk

Mondelez isn't immune to a barrage of internal and external headwinds. For one, the gum category remains under pressure. We recognize a portion of this weakness reflects tough macro conditions (high unemployment rates, particularly among teenagers who are avid users, for example). However, some of the wounds have been self-inflicted, as reduced advertising support, combined with a proliferation of stock-keeping units, have been a drag on category sales. For instance, between 1998 and 2008, the global gum market grew at a 7% compound annual rate, but slowed to just 3% between 2008 and 2011, and a mere 0.4% growth on average between 2012 and 2014. Stumbles in Brazil, Russia, and Canada and allegations from the Indian government it avoided $46 million (INR 2.5 billion) in taxes from May 2010 to January 2013 by using a tax holiday for production at a local facility that the government claims was not operational at the time have also proved to be distractions for management. In addition, input cost pressures for raw materials (such as cocoa, sugar, dairy, and grains) can fluctuate wildly and could pressure profitability. International sales account for 80% of its consolidated total, implying volatile foreign currency fluctuations will affect reported results from time to time, as is occurring now. Despite the challenges that may ensue from operating in these sometimes politically unstable regions, we're encouraged no single developing-market country accounts for more than 7% of sales. Consumer product firms worldwide are on the prowl for a larger emerging-markets presence, and as such, any tie-up Mondelez pursues may come with a hefty price tag. Further, the firm may face roadblocks related to the integration of new brands (like personnel retention issues that we believe challenged the former Kraft business following the purchase of Cadbury). Despite this, management has proved itself to be prudent stewards of shareholder capital, and we doubt this will change now.

Mondelez International Inc MDLZ (NAS) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
37.00 USD	42.00 USD	29.40 USD	56.70 USD	Medium	Wide	Stable	Standard	Consumer Packaged Goods

Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
IRENE B. ROSENFELD	CEO/Chairman of the Board/ Director,Director	1,644,614	23 Feb 2015	—
KAREN J. MAY	Executive VP, Divisional	303,497	23 Feb 2015	—
GUSTAVO H. ABELENDA	Executive VP/President, Geographical	198,411	23 Feb 2015	—
MARY BETH STONE WEST	Chief Marketing Officer/Executive VP/Other Executive Officer	171,567	24 Feb 2014	—
MR. TIMOTHY P. COFER	Executive VP/President, Geographical	143,412	23 Feb 2015	—
GERHARD W. PLEUHS	Executive VP/General Counsel	141,381	23 Feb 2015	—
MR. FREDRIC G. REYNOLDS	Director	129,173	21 May 2014	—

*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

Fund Ownership

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
Vanguard Total Stock Mkt Idx	1.69	0.25	315	28 Feb 2015
Vanguard Five Hundred Index Fund	1.13	0.33	198	28 Feb 2015
Vanguard Institutional Index Fund	1.06	0.33	91	28 Feb 2015
SPDR® S&P 500 ETF	1.01	0.33	-152	02 Apr 2015
PowerShares QQQ	0.78	1.21	-58	02 Apr 2015
Concentrated Holders				
Independent Franchise Part Equity Fund	0.10	6.60	590	31 Dec 2014
Säästöpankki Amerikka	0.01	4.92	80	28 Feb 2015
Inversiones Alta Ruta SICAV	—	4.87	4	30 Sep 2014
Lindsell Train Global Equity Fund	0.09	4.81	45	28 Feb 2015
Longleaf Partners Fund	0.56	4.47	-1,991	31 Dec 2014

Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
Wellington Management Company LLP	2.66	0.42	7,127	31 Dec 2014
Trian Fund Management, L.p.	2.78	17.83	4,557	31 Dec 2014
State Street Corp	4.66	0.28	3,245	31 Dec 2014
Goldman Sachs Asset Management, L.P.	0.25	0.14	3,017	31 Dec 2014
Viking Global Investors LP	0.86	2.37	2,984	31 Dec 2014
Top 5 Sellers				
BB&T SECURITIES, LLC	0.04	0.57	-6,178	31 Dec 2014
OZ Management LLC	0.70	1.14	-4,469	31 Dec 2014
Fidelity Management and Research Company	1.48	0.13	-4,102	31 Dec 2014
Southeastern Asset Management Inc.	1.61	5.59	-3,901	31 Dec 2014
Merrill Lynch & Co Inc	0.36	0.12	-3,856	31 Dec 2014

Management 23 Mar 2015

Before the split of its operations into its North American grocery and global snacks business, we perceived Kraft's stewardship of shareholder capital to be standard. As an independent organization, we think Mondelez is continuing down the path of optimizing shareholder returns. Chairwoman and CEO Irene Rosenfeld, 61, has spent more than 25 years at the packaged food firm, after accounting for a two-year stint at PepsiCo. During her tenure, the former Kraft business pruned lower-margin offerings while building out its portfolio of higher-growth, higher-margin products, including the acquisition of Cadbury. Although we believe a fair price was paid for this attractive asset, the firm's use of its undervalued stock made the deal slightly value-destructive to shareholders. We would not be surprised to see Mondelez look to expand further into higher-growth, emerging regions through bolt-on deals, but we caution that, with several consumer product firms looking for expansion opportunities, valuation multiples could trend to insanely high levels, making such deals less beneficial.

In fiscal 2013, Rosenfeld's salary, stock, and option awards amounted to $12 million--down from $19.5 million in 2012 which included a stock grant of more than $15 million. Overall, we like several areas of its corporate governance. Directors are elected annually, and the firm's compensation structure appears reasonable, with nearly 80% of an executive manager's annual pay at risk. We're also encouraged that a large group of managers are required to hold a multiple of their annual salary in stock (ranging from four to eight times), as this aligns management's interests with those of shareholders, in our view. The board consists of 12 directors, six of whom previously served as directors for the consolidated Kraft business. However, we think the positions of chairman and CEO should be held by two individuals to better balance decision-making power within the board.

Mondelez International Inc MDLZ (NAS) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
37.00 USD	42.00 USD	29.40 USD	56.70 USD	Medium	Wide	Stable	Standard	Consumer Packaged Goods

Analyst Notes

Competitive Pressure and Unfavorable Foreign Exchange Take a Toll on Mondelez 11 Feb 2015

Mondelez's brand intangible asset is a competitive edge that supports our wide moat, but the continued volume retreat after price increases shows that brand investments are key in this intensely competitive space. Fourth-quarter organic sales were driven entirely by higher prices (up 6%), as volumes declined more than 3%. Management again pointed to the dislocation resulting from price increases to offset input cost pressures, particularly in European chocolate, and the delayed competitive response. With low private-label penetration and strong brand loyalty, confectionery tends to be a category where pricing hasn't prompted volume shortfalls over multiple quarters, as is occurring. We don't see this as a structural change, but as an indication of the competitive landscape, and we anticipate that Mondelez will drive more balanced sales growth long term.

We sense that Mondelez understands the importance of maintaining its brand equities, with 13% of sales resulting from new products in 2014. But it's hard to gauge whether the firm is adequately spending behind marketing to ensure its products consistently win at the shelf, as the contraction in the operating margins was not as significant as for gross margins. The adjusted gross margin tumbled 140 basis points to 35.7% due to cost pressures and foreign exchange, but the adjusted operating margin slipped only 70 basis points to 13.2%, a more modest decline due to lower overhead and ad spending.

We hope management addresses these concerns at the Consumer Analyst Group of New York conference next week, and as such, will hold the line on our wide moat. While foreign exchange will take a bite out of sales and profits this year (11% and $0.31 per share, respectively), we don't anticipate a material change to our $35 fair value estimate, since a reduction in our current-year forecast will be offset by cash generated since our last update. Shares trade above our fair value, and we'd wait for a more attractive entry point.

From a geographic perspective, significant pricing in Latin America (where underlying sales popped 15.3%) and Eastern Europe, the Middle East, and Africa (up 6.3%) drove pronounced top-line performance. Europe (up 1.1%) and North America (down 1.5%) were a mixed bag, calling attention to the competitive pressures that plague global packaged food firms in developed markets. The firm has referenced the pushback its received from retailers (particularly those in France) surrounding recent pricing actions, and as such, intends to rationalize its product set and distribution to focus on the highest-return opportunities (which will likely negatively affect sales growth by 100 basis points this year). We view these efforts as prudent given the competitive environment in which it plays.

Mondelez Sweetens Earnings Outlook Following Improved 3Q Results; Shares Fairly Valued 05 Nov 2014

The strength of Mondelez's brand portfolio and the economies of scale that emanate from its expansive distribution network (the basis for our wide moat) were evident in the quarter. Management held the line on its full-year sales guidance at 2%-2.5%, but bumped up its earnings forecast to $1.67-$1.72 (from $1.64-$1.69), which compares favorably with our outlook. Our $35 fair value estimate remains, and with the shares trading at a premium to our valuation, we'd suggest investors wait for a more attractive entry point.

Organic revenue rose 2.7%, as higher prices (up 5.8%) offset contracting volumes (down 3.1%). The dislocation partly reflects pricing actions taken to offset input cost pressures, and the delayed response by competitors (although management attests its peers more recently raised prices). While profitability has lagged other operators, we're encouraged by the margin improvement, as the firm's efforts

Mondelez International Inc MDLZ (NAS) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
37.00 USD	42.00 USD	29.40 USD	56.70 USD	Medium	Wide	Stable	Standard	Consumer Packaged Goods

Analyst Notes

to reduce overhead costs and improve efficiencies appear to be gaining traction. The adjusted gross margin ticked up 40 basis points to 37.7%, and the adjusted operating margin expanded 140 basis points to 13.6%. Long term, we expect operating margins will increase to 15% by fiscal 2017 (which is more comparable with other efficiently run packaged food firms).

The bifurcation between emerging (up 9%) and developed markets (down 1.3%) was again apparent. After a few disappointing quarters, the firm generated high-single-digit top-line growth in China, reflecting the benefit of innovation and marketing, but it will take a few more quarters before we'll consider this improvement sustainable. Europe was weak (down 2.4%), because of continued pushback on price hikes by retailers in France. These disruptions tend to be short-term in nature, but illustrate the dynamic relationship between retailers and consumer product firms. However, longer-term we still believe retailers are dependent on strong brands (like those in Mondelez's portfolio) to drive store traffic.

Mondelez International Inc MDLZ (NAS) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
37.00 USD	42.00 USD	29.40 USD	56.70 USD	Medium	Wide	Stable	Standard	Consumer Packaged Goods

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2012	2013	2014	*Forecast* 2015	2016	5-Year Proj. CAGR
Revenue	*-1.5*	-2.2	0.8	-3.0	*-9.7*	*1.2*	*0.3*
EBIT	*4.0*	5.4	14.4	-6.6	*6.1*	*6.0*	*6.4*
EBITDA	*0.1*	1.0	5.2	-5.6	*5.0*	*5.0*	*5.5*
Net Income	*-7.6*	-12.9	35.3	-33.0	*6.9*	*4.4*	*7.2*
Diluted EPS	*-6.5*	-13.7	35.3	-29.9	*8.4*	*7.5*	*9.8*
Earnings Before Interest, after Tax	*-16.1*	19.4	7.2	-53.9	*4.8*	*21.2*	*12.9*
Free Cash Flow	*-16.6*	-8.6	75.3	-63.8	*-24.1*	*56.1*	*14.4*

Profitability	3-Year Hist. Avg	2012	2013	2014	2015	2016	5-Year Proj. Avg
Operating Margin %	*11.3*	10.5	11.9	11.5	*13.5*	*14.2*	*14.5*
EBITDA Margin %	*14.6*	14.4	15.0	14.6	*17.0*	*17.6*	*18.0*
Net Margin %	*9.6*	8.8	11.8	8.1	*9.6*	*9.9*	*10.5*
Free Cash Flow Margin %	*11.5*	10.2	17.7	6.6	*5.6*	*8.6*	*9.9*
ROIC %	—	—	—	—	—	—	—
Adjusted ROIC %	*10.0*	9.6	10.5	9.9	*11.7*	*12.3*	*13.1*
Return on Assets %	*4.0*	3.6	5.3	3.1	*3.0*	*3.8*	*4.5*
Return on Equity %	*9.5*	9.0	12.1	7.3	*7.1*	*9.2*	*11.0*

Leverage	3-Year Hist. Avg	2012	2013	2014	2015	2016	5-Year Proj. Avg
Debt/Capital	*0.37*	0.38	0.35	0.38	*0.40*	*0.40*	*0.40*
Total Debt/EBITDA	*3.48*	3.86	3.24	3.34	*3.43*	*3.36*	*3.21*
EBITDA/Interest Expense	*5.58*	4.27	5.20	7.26	*7.11*	*6.93*	*7.10*

Valuation Summary and Forecasts

	2013	2014	*2015(E)*	*2016(E)*
Price/Fair Value	1.22	1.04	—	—
Price/Earnings	15.2	22.3	*21.0*	*19.5*
EV/EBITDA	14.1	15.1	*14.5*	*13.8*
EV/EBIT	17.7	19.2	*18.2*	*17.2*
Free Cash Flow Yield %	8.0	3.2	*-6.2*	*3.2*
Dividend Yield %	1.6	1.6	*1.4*	*1.5*

Key Valuation Drivers

Cost of Equity %	7.5
Pre-Tax Cost of Debt %	6.5
Weighted Average Cost of Capital %	7.0
Long-Run Tax Rate %	21.4
Stage II EBI Growth Rate %	4.0
Stage II Investment Rate %	6.7
Perpetuity Year	20

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	28,136	31.7	16.93
Present Value Stage II	25,363	28.6	15.26
Present Value Stage III	35,262	39.7	21.22
Total Firm Value	**88,761**	**100.0**	**53.40**
Cash and Equivalents	1,631	—	0.98
Debt	-16,700	—	-10.05
Preferred Stock	—	—	—
Other Adjustments	-4,311	—	-2.59
Equity Value	**69,381**	**—**	**41.74**
Projected Diluted Shares	1,662		
Fair Value per Share (USD)	—		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

Mondelez International Inc MDLZ (NAS) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
37.00 USD	42.00 USD	29.40 USD	56.70 USD	Medium	Wide	Stable	Standard	Consumer Packaged Goods

Morningstar Analyst Forecasts

Income Statement (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2012	2013	2014	*2015*	*2016*
Revenue	**35,015**	**35,299**	**34,244**	***30,924***	***31,287***
Cost of Goods Sold	21,939	22,189	21,647	*19,250*	*19,319*
Gross Profit	**13,076**	**13,110**	**12,597**	***11,674***	***11,967***
Selling, General & Administrative Expenses	5,771	5,627	5,597	*4,793*	*4,771*
Advertising & Marketing	1,815	1,721	1,552	*1,392*	*1,439*
Research & Development	462	471	455	*387*	*391*
Depreciation & Amortization (if reported separately)	1,345	1,077	1,059	*928*	*939*
Operating Income (ex charges)	**3,683**	**4,214**	**3,934**	***4,175***	***4,427***
Restructuring & Other Cash Charges	-107	-30	—	*1,250*	*750*
Impairment Charges (if reported separately)	153	273	692	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**3,637**	**3,971**	**3,242**	***2,925***	***3,677***
Interest Expense	1,177	1,017	688	*737*	*794*
Interest Income	-686	-562	—	—	—
Pre-Tax Income	**1,774**	**2,392**	**2,554**	***2,187***	***2,883***
Income Tax Expense	207	60	353	*416*	*577*
Other After-Tax Cash Gains (Losses)	1,488	1,603	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	-27	-20	-17	*188*	*196*
(Preferred Dividends)	—	—	—	—	—
Net Income	**3,028**	**3,915**	**2,184**	***1,959***	***2,502***
Weighted Average Diluted Shares Outstanding	1,789	1,789	1,709	*1,686*	*1,637*
Diluted Earnings Per Share	**1.69**	**2.19**	**1.28**	***1.16***	***1.53***
Adjusted Net Income	3,069	4,152	2,780	*2,972*	*3,102*
Diluted Earnings Per Share (Adjusted)	**1.72**	**2.32**	**1.63**	***1.76***	***1.90***
Dividends Per Common Share	1.15	0.53	0.56	*0.52*	*0.57*
EBITDA	**4,982**	**5,048**	**4,301**	***3,992***	***4,754***
Adjusted EBITDA	**5,028**	**5,291**	**4,993**	***5,242***	***5,504***

Mondelez International Inc MDLZ (NAS) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
37.00 USD	42.00 USD	29.40 USD	56.70 USD	Medium	Wide	Stable	Standard	Consumer Packaged Goods

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2012	2013	2014	*2015*	*2016*
Cash and Equivalents	4,475	2,664	1,631	*1,662*	*1,581*
Investments	—	—	—	—	—
Accounts Receivable	6,129	5,403	4,751	*4,316*	*4,392*
Inventory	3,741	3,743	3,480	*3,105*	*3,127*
Deferred Tax Assets (Current)	542	517	480	*456*	*433*
Other Short Term Assets	735	889	1,408	*1,272*	*1,286*
Current Assets	**15,622**	**13,216**	**11,750**	***10,811***	***10,820***
Net Property Plant, and Equipment	10,010	10,247	9,827	*10,445*	*11,071*
Goodwill	25,801	25,597	23,389	*23,389*	*23,389*
Other Intangibles	22,552	21,994	20,335	*20,118*	*19,901*
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	1,475	1,449	1,461	*1,319*	*1,335*
Long-Term Non-Operating Assets	18	54	53	*53*	*53*
Total Assets	**75,478**	**72,557**	**66,815**	***66,136***	***66,569***
Accounts Payable	4,642	5,345	5,299	*4,704*	*4,713*
Short-Term Debt	3,851	2,639	2,835	*3,500*	*3,500*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	6,380	6,412	5,873	*5,304*	*5,366*
Current Liabilities	**14,873**	**14,396**	**14,007**	***13,508***	***13,579***
Long-Term Debt	15,574	14,482	13,865	*14,500*	*15,000*
Deferred Tax Liabilities (Long-Term)	6,302	6,282	5,512	*5,457*	*5,402*
Other Long-Term Operating Liabilities	3,038	2,491	3,438	*3,105*	*3,141*
Long-Term Non-Operating Liabilities	3,336	2,374	2,140	*2,140*	*2,140*
Total Liabilities	**43,123**	**40,025**	**38,962**	***38,710***	***39,263***
Preferred Stock	—	—	—	—	—
Common Stock	—	—	—	—	—
Additional Paid-in Capital	31,548	31,396	31,651	*31,651*	*31,651*
Retained Earnings (Deficit)	10,457	13,419	14,529	*15,612*	*17,186*
(Treasury Stock)	-7,157	-9,553	-11,112	*-12,612*	*-14,307*
Other Equity	-2,633	-2,889	-7,318	*-7,318*	*-7,318*
Shareholder's Equity	**32,215**	**32,373**	**27,750**	***27,333***	***27,212***
Minority Interest	140	159	103	*93*	*94*
Total Equity	**32,355**	**32,532**	**27,853**	***27,426***	***27,306***

Mondelez International Inc MDLZ (NAS) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
37.00 USD	42.00 USD	29.40 USD	56.70 USD	Medium	Wide	Stable	Standard	Consumer Packaged Goods

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December	2012	2013	2014	*Forecast* *2015*	*2016*
Net Income	3,055	3,935	2,201	*1,772*	*2,307*
Depreciation	1,128	860	853	*850*	*860*
Amortization	217	217	206	*217*	*217*
Stock-Based Compensation	162	128	141	*120*	*119*
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	126	97	240	—	—
Deferred Taxes	410	-64	-186	*-31*	*-32*
Other Non-Cash Adjustments	-3	48	-325	—	—
(Increase) Decrease in Accounts Receivable	-599	492	184	*435*	*-76*
(Increase) Decrease in Inventory	-129	-116	-188	*375*	*-22*
Change in Other Short-Term Assets	217	-42	-86	*-4,864*	*-15*
Increase (Decrease) in Accounts Payable	505	793	387	*-595*	*9*
Change in Other Short-Term Liabilities	-1,166	62	135	*-569*	*62*
Cash From Operations	**3,923**	**6,410**	**3,562**	***-2,290***	***3,430***
(Capital Expenditures)	-1,610	-1,622	-1,642	*-1,469*	*-1,486*
Net (Acquisitions), Asset Sales, and Disposals	333	84	—	*5,000*	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	-410	55	—	*-192*	*21*
Cash From Investing	**-1,687**	**-1,483**	**-1,642**	***3,339***	***-1,465***
Common Stock Issuance (or Repurchase)	—	-2,900	-1,700	*-1,500*	*-1,695*
Common Stock (Dividends)	-2,058	-943	-964	*-876*	*-928*
Short-Term Debt Issuance (or Retirement)	93	655	398	*665*	—
Long-Term Debt Issuance (or Retirement)	2,280	-3,589	-616	*635*	*500*
Other Financing Cash Flows	-111	132	194	*58*	*78*
Cash From Financing	**204**	**-6,645**	**-2,688**	***-1,019***	***-2,046***
Exchange Rates, Discontinued Ops, etc. (net)	61	-93	-223	—	—
Net Change in Cash	**2,501**	**-1,811**	**-991**	***31***	***-81***

Mondelez International Inc MDLZ (NAS) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
37.00 USD	42.00 USD	29.40 USD	56.70 USD	Medium	Wide	Stable	Standard	Consumer Packaged Goods

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Valuation Analysis

Company/Ticker	Price/Fair Value	Price/Earnings 2014	2015(E)	2016(E)	EV/EBITDA 2014	2015(E)	2016(E)	Price/Free Cash Flow 2014	2015(E)	2016(E)	Price/Book 2014	2015(E)	2016(E)	Price/Sales 2014	2015(E)	2016(E)
Nestle SA NSRGY USA	0.99	—	22.0	19.8	—	15.6	14.3	—	28.3	27.5	—	3.6	3.5	—	2.8	2.6
General Mills Inc GIS USA	1.01	19.9	20.9	19.0	11.9	13.1	12.3	17.9	20.7	18.1	5.1	5.6	5.2	1.9	1.9	1.9
Kellogg Co K USA	1.07	16.4	18.8	18.1	11.8	12.9	12.4	19.2	32.0	28.0	8.3	9.1	8.2	1.6	1.7	1.6
The Hershey Co HSY USA	0.91	26.6	23.4	21.5	15.0	13.3	12.5	49.1	26.2	23.6	15.8	14.1	12.7	3.1	2.8	2.7
Campbell Soup Co CPB USA	0.99	17.2	19.8	19.0	10.8	12.2	11.9	23.7	20.3	18.3	8.1	7.8	7.4	1.6	1.8	1.8
Average		20.0	21.0	19.5	12.4	13.4	12.7	27.5	25.5	23.1	9.3	8.0	7.4	2.1	2.2	2.1
Mondelez International Inc MDLZ	**0.88**	**22.3**	**21.0**	**19.5**	**15.1**	**14.5**	**13.8**	**31.5**	**NM**	**31.4**	**2.2**	**2.2**	**2.2**	**1.8**	**2.0**	**2.0**

Returns Analysis

Company/Ticker	Last Historical Year Total Assets (Mil)	ROIC % 2014	2015(E)	2016(E)	Adjusted ROIC % 2014	2015(E)	2016(E)	Return on Equity % 2014	2015(E)	2016(E)	Return on Assets % 2014	2015(E)	2016(E)	Dividend Yield % 2014	2015(E)	2016(E)
Nestle SA NSRGY USA	— CHF	15.0	13.2	14.3	16.1	14.3	15.5	17.3	14.9	16.3	9.1	8.1	8.8	—	3.1	3.2
General Mills Inc GIS USA	— USD	—	—	—	18.8	15.7	18.7	27.6	25.6	29.3	8.0	6.9	7.7	2.9	2.5	2.7
Kellogg Co K USA	15,153 USD	—	—	—	15.4	19.6	20.1	20.0	36.9	37.2	4.1	6.5	6.6	2.9	2.1	2.2
The Hershey Co HSY USA	5,630 USD	—	—	—	35.6	32.8	32.9	55.4	61.4	60.3	15.4	16.4	17.2	1.9	2.2	2.3
Campbell Soup Co CPB USA	8,113 USD	—	—	—	20.3	19.0	19.6	57.8	42.7	39.7	10.0	9.2	9.4	3.0	2.6	2.6
Average		15.0	13.2	14.3	21.2	20.3	21.4	35.6	36.3	36.6	9.3	9.4	9.9	2.7	2.5	2.6
Mondelez International Inc MDLZ	**66,815** USD	**—**	**—**	**—**	**9.9**	**11.7**	**12.3**	**7.3**	**7.1**	**9.2**	**3.1**	**3.0**	**3.8**	**1.6**	**1.4**	**1.5**

Growth Analysis

Company/Ticker	Last Historical Year Revenue (Mil)	Revenue Growth % 2014	2015(E)	2016(E)	EBIT Growth % 2014	2015(E)	2016(E)	EPS Growth % 2014	2015(E)	2016(E)	Free Cash Flow Growth % 2014	2015(E)	2016(E)	Dividend/Share Growth % 2014	2015(E)	2016(E)
Nestle SA NSRGY USA	92,182 CHF	-0.2	-9.6	5.5	9.9	-10.6	9.7	10.1	-11.2	10.8	20.1	-36.2	0.3	5.2	5.2	5.2
General Mills Inc GIS USA	17,910 USD	0.8	-1.9	2.9	0.8	-5.6	7.9	-1.7	-2.0	10.5	38.0	-52.7	115.2	16.8	-11.1	10.5
Kellogg Co K USA	14,580 USD	-1.4	-3.0	1.0	-1.9	-5.5	4.3	12.4	-11.8	4.0	0.7	-28.1	16.4	5.6	-26.0	4.6
The Hershey Co HSY USA	7,422 USD	3.9	7.2	4.8	5.7	9.0	6.7	6.4	11.4	8.9	-93.1	NM	10.8	13.0	10.9	8.9
Campbell Soup Co CPB USA	8,268 USD	2.7	-1.0	1.4	2.1	-4.2	3.2	-2.0	-2.4	4.2	-164.8	-3.1	10.3	6.9	-4.8	4.2
Average		1.2	-1.7	3.1	3.3	-3.4	6.4	5.0	-3.2	7.7	-39.8	-30.0	30.6	9.5	-5.2	6.7
Mondelez International Inc MDLZ	**34,244** USD	**-3.0**	**-9.7**	**1.2**	**-6.6**	**6.1**	**6.0**	**-29.9**	**8.4**	**7.5**	**-63.8**	**-24.1**	**56.1**	**7.0**	**-7.8**	**9.0**

Mondelez International Inc MDLZ (NAS) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
37.00 USD	42.00 USD	29.40 USD	56.70 USD	Medium	Wide	Stable	Standard	Consumer Packaged Goods

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Profitability Analysis

	Last Historical Year	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
Company/Ticker	Net Income (Mil)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
Nestle SA NSRGY USA	10,972 CHF	48.5	48.2	48.7	18.8	18.7	19.3	15.6	15.4	16.0	11.9	11.6	12.0	9.7	9.8	9.5
General Mills Inc GIS USA	1,783 USD	35.6	35.5	35.8	19.4	18.8	19.5	16.2	15.6	16.3	10.0	9.8	10.2	10.5	9.3	10.4
Kellogg Co K USA	1,433 USD	34.7	36.0	36.5	17.6	16.8	17.2	14.1	13.8	14.2	9.8	8.8	8.9	8.3	5.2	5.9
The Hershey Co HSY USA	876 USD	45.0	45.8	46.1	22.2	22.8	23.2	19.3	19.7	20.0	11.8	12.2	12.4	6.3	10.8	11.4
Campbell Soup Co CPB USA	763 USD	35.1	35.0	35.1	18.8	18.3	18.5	15.1	14.6	14.9	9.2	9.1	9.2	6.7	8.8	9.6
Average		39.8	40.1	40.4	19.4	19.1	19.5	16.1	15.8	16.3	10.5	10.3	10.5	8.3	8.8	9.4
Mondelez International Inc MDLZ	**2,780** USD	**36.8**	**37.8**	**38.3**	**14.6**	**17.0**	**17.6**	**11.5**	**13.5**	**14.2**	**8.1**	**9.6**	**9.9**	**5.6**	**-12.2**	**6.2**

Leverage Analysis

	Last Historical Year	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
Company/Ticker	Total Debt (Mil)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
Nestle SA NSRGY USA	22,000 CHF	34.1	34.0	33.6	25.4	25.4	25.1	21.9	19.9	21.1	1.3	1.4	1.3	1.9	1.8	1.8
General Mills Inc GIS USA	8,786 USD	134.5	168.7	153.8	57.4	62.8	60.6	10.8	8.7	8.5	2.5	3.1	2.8	3.5	3.9	3.7
Kellogg Co K USA	7,370 USD	264.3	306.0	269.0	72.6	75.4	72.9	12.3	10.8	9.4	2.9	3.3	3.1	5.4	5.9	5.4
The Hershey Co HSY USA	2,184 USD	150.1	131.9	118.9	60.0	56.9	54.3	18.8	20.4	21.4	1.3	1.2	1.1	3.9	3.6	3.4
Campbell Soup Co CPB USA	4,015 USD	248.6	201.7	185.4	71.3	66.9	65.0	12.7	11.0	11.9	2.6	2.5	2.4	5.0	4.3	4.1
Average		166.3	168.5	152.1	57.3	57.5	55.6	15.3	14.2	14.5	2.1	2.3	2.1	3.9	3.9	3.7
Mondelez International Inc MDLZ	**16,700** USD	**60.2**	**65.9**	**68.0**	**37.6**	**39.7**	**40.5**	**7.3**	**7.1**	**6.9**	**3.3**	**3.4**	**3.4**	**2.4**	**2.4**	**2.4**

Liquidity Analysis

		Cash per Share			Current Ratio			Quick Ratio			Cash/Short-Term Debt			Payout Ratio %		
Company/Ticker	Market Cap (Mil)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
Nestle SA NSRGY USA	242,161 USD	3.33	3.14	2.93	1.00	0.97	0.96	0.75	0.74	0.72	0.82	0.76	0.70	62.5	74.0	70.2
General Mills Inc GIS USA	33,822 USD	1.34	1.32	1.64	0.81	0.78	0.82	0.52	0.50	0.53	0.37	0.33	0.40	53.9	53.3	50.0
Kellogg Co K USA	23,544 USD	1.23	1.40	1.16	0.77	0.78	0.78	0.47	0.49	0.48	0.31	0.35	0.31	107.6	50.0	50.0
The Hershey Co HSY USA	22,414 USD	2.10	1.75	2.03	1.16	1.26	1.29	0.75	0.80	0.82	0.74	0.98	1.11	52.0	51.8	51.1
Campbell Soup Co CPB USA	14,548 USD	0.73	0.40	0.37	0.70	0.73	0.75	0.36	0.36	0.37	0.13	0.08	0.08	47.8	50.0	50.0
Average		1.75	1.60	1.63	0.89	0.90	0.92	0.57	0.58	0.58	0.47	0.50	0.52	64.8	55.8	54.3
Mondelez International Inc MDLZ	**61,031** USD	**0.95**	**0.99**	**0.97**	**0.84**	**0.80**	**0.80**	**0.59**	**0.57**	**0.57**	**0.58**	**0.47**	**0.45**	**44.1**	**44.7**	**37.1**

Research Methodology for Valuing Companies

Components of Our Methodology

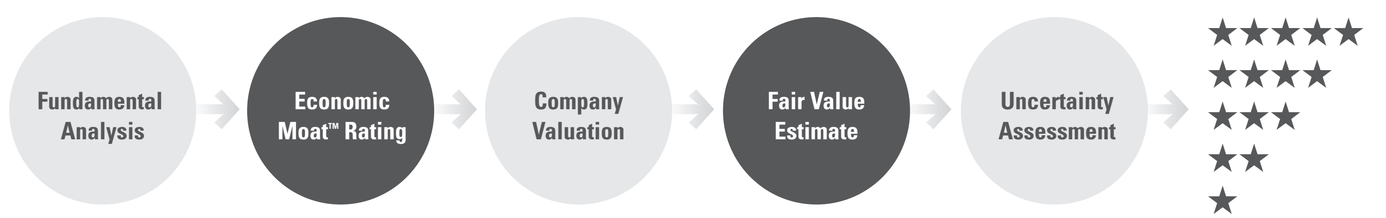
- Economic Moat™ Rating
- Moat Trend™ Rating
- Moat Valuation
- Three-Stage Discounted Cash Flow
- Weighted Average Cost of Capital
- Fair Value Estimate
- Scenario Analysis
- Uncertainty Ratings
- Margin of Safety
- Consider Buying/Selling
- Stewardship Rating

The Morningstar Rating for stocks identifies companies trading at a discount or premium to our analysts' assessment of their fair value. A number of components drive this rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's intrinsic value based on a discounted cash-flow model, (3) the margin of safety bands we apply to our Fair Value Estimate, and (4) the current stock price relative to our fair value estimate.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm's investment potential, but also in our valuation process. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. There are two major requirements for firms to earn either a narrow or wide moat rating: (1) the prospect of earning above-average returns on capital; and (2) some competitive edge that prevents these returns from quickly eroding. The assumptions we make about a firm's moat determine the length of "economic outperformance" that we assume in the latter stages of our valuation model. We also quantify the value of each firm's moat, which represents the difference between a firm's enterprise value and the value of the firm if no future net investment were to occur. Said differently, moat value identifies the value generated by the firm as a result of any future net new investment. Our Moat Trend Rating reflects our assessment of whether each firm's competitive advantage is either getting stronger or weaker, since we think of moats as dynamic, rather than static.

At the heart of our valuation system is a detailed projection of a company's future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm's return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from 0 years (for no-moat firms) to 20 years (for wide-moat companies). In our third stage, we assume the firm's RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard

Morningstar Research Methodology for Valuing Companies



Fundamental Analysis	Economic Moat™ Rating	Company Valuation	Fair Value Estimate	Uncertainty Assessment	Star Rating
Analyst conducts company and industry research: ► Financial statement analysis ► Channel checks ► Trade-show visits ► Industry and company reports and journals ► Conference calls ► Management and site visits	Strength of competitive advantage is rated: None, Narrow, or Wide Advantages that confer an economic moat: **High Switching Costs** (Microsoft) **Cost advantage** (Wal-Mart) **Intangible assets** (Johnson & Johnson) **Network Effect** (Mastercard) **Efficient Scale** (Lockheed Martin)	Analyst considers past financial results and focuses on competitive position and future prospects to forecast future cash flows. Assumptions are entered into Morningstar's proprietary discounted cash-flow model.	Analyst uses a discounted cash-flow model to develop a Fair Value Estimate, which serves as the foundation for the Morningstar Rating for stocks.	The analyst then evaluates the range of potential intrinsic values for the company and assigns an Uncertainty Rating: Low, Medium, High, Very High, or Extreme. The Uncertainty Rating determines the margin of safety required before we would recommend the stock. The higher the uncertainty, the wider the margin of safety.	The current stock price relative to Morningstar's Fair Value Estimate, adjusted for uncertainty, determines the Morningstar Rating for stocks. The Morningstar Rating for stocks is updated each evening after the market closes.

Research Methodology for Valuing Companies

Detailed Methodology Documents and Materials*

- Comprehensive Equity Research Methodology
- Uncertainty Methodology
- Cost of Equity Methodology
- Morningstar DCF Valuation Model
- Stewardship Rating Methodology

* Please contact a sales representative for more information.

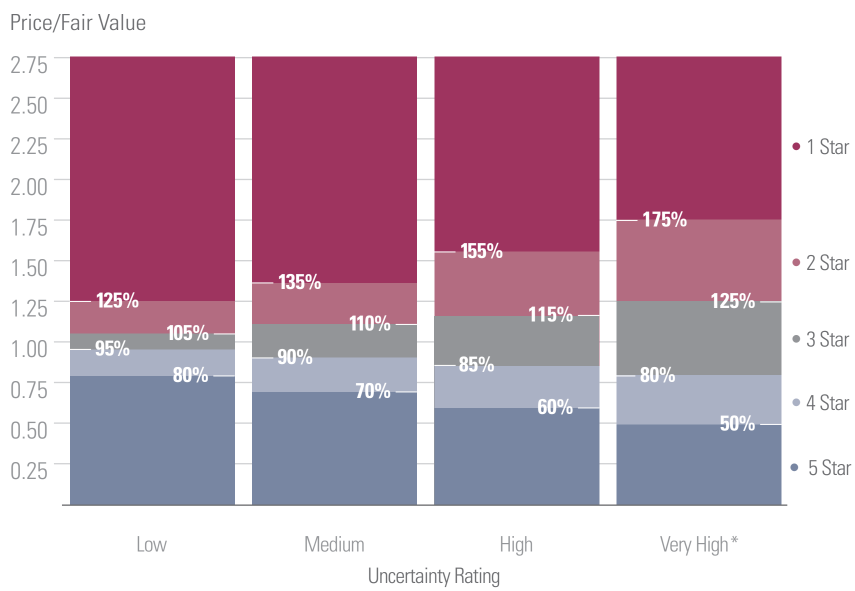
perpetuity formula. In deciding on the rate at which to discount future cash flows, we ignore stock-price volatility. Instead, we rely on a system that measures the estimated volatility of a firm's underlying future free cash flows, taking into account fundamental factors such as the diversity of revenue sources and the firm's fixed cost structure.

We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts typically model three to five scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of these potential fair values, based on an assessment of a company's future sales range, the firm's operating and financial leverage, and any other contingent events that may impact the business. Our analysts use this range to assign an appropriate margin of safety—or the discount/premium to a fair value we apply in setting our consider buying/consider selling prices. Firms trading below our consider-buying prices receive our highest rating of five stars, whereas firms trading above our consider-selling prices receive our lowest rating of one star.

Our corporate Stewardship Rating represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

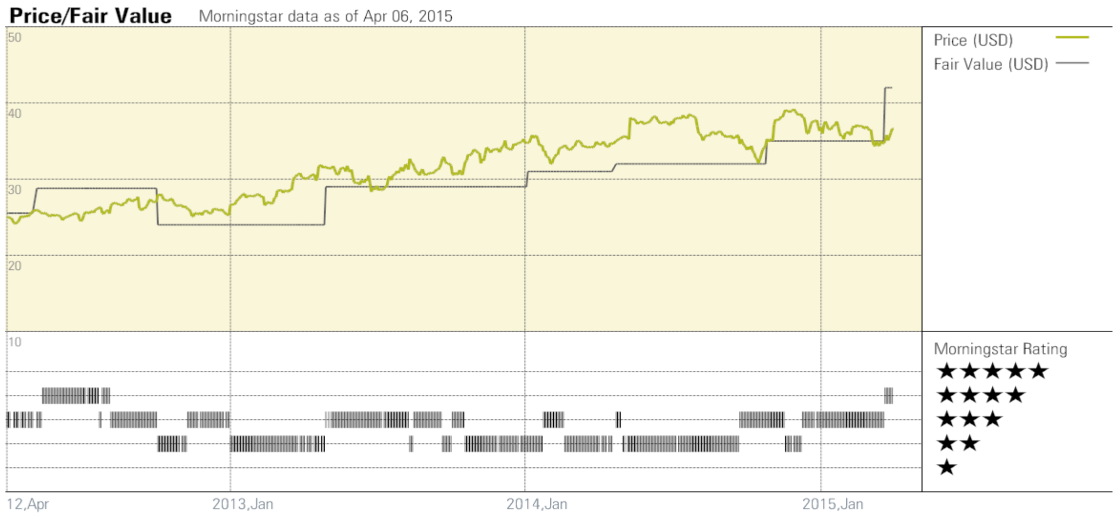
Morningstar Margin of Safety and Star Rating Bands



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Mondelez International Inc MDLZ (NAS) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
37.00 USD	42.00 USD	29.40 USD	56.70 USD	Medium	Wide	Stable	Standard	Consumer Packaged Goods



The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic value.

Five-star stocks sell for the biggest risk-adjusted discount whereas one-star stocks trade at premiums to their intrinsic value. Based on a fundamentally focused methodology and a robust, standardized set of procedures and core valuation tools used by Morningstar's Equity Analysts, four key components drive the Morningstar Rating: 1. Assessment of the firm's economic moat, 2. Estimate of the stock's fair value, 3. Uncertainty around that fair value estimate and 4. Current market price. Further information on Morningstar's methodology is available from http://global.morningstar.com/equitydisclosures.

This Research Report is current as of the date on the report until it is replaced, updated or withdrawn. This report may be withdrawn or changed at any time as other information becomes available to us. This report will be updated if events affecting the report materially change.

Conflicts of Interest:

-No material interests are held by Morningstar or the Equity Analyst in the financial products that are the subject of the research reports or the product.

-Equity Analysts are required to comply with the CFA Institute's Code of Ethics and Standards of Professional Conduct.

-Equity Analysts' compensation is derived from Morningstar's overall earning and consists of salary, bonus and in some cases restricted stock.

-Equity Analysts do not influence Morningstar's investment management group's business arrangements nor allow employees from the investment management group to participate or influence the analysis or opinion prepared by them. Morningstar will not receive any direct benefit from the publication of this report. Morningstar does not receive commissions for providing research and does not charge companies to be rated.

-Equity Analysts use publicly available information.

Mondelez International Inc MDLZ (NAS) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
37.00 USD	42.00 USD	29.40 USD	56.70 USD	Medium	Wide	Stable	Standard	Consumer Packaged Goods

-Morningstar may provide the product issuer or its related entities with services or products for a fee and on an arms length basis including software products and licenses, research and consulting services, data services, licenses to republish our ratings and research in their promotional material, event sponsorship and website advertising.

-Further information on Morningstar's conflict of interest policies is available from http://global.morningstar.com/equitydisclosures.

If you wish to obtain further information regarding previous research reports and recommendations and our services, please contact your local Morningstar office.

Unless otherwise provided in a separate agreement, you may use this report only in the country in which its distributor is based.

Unless stated otherwise, the original distributor of this document is Morningstar Inc. The information contained herein is not represented or warranted to be accurate, correct, complete, or timely. This report is for information purposes only, and should not be considered a solicitation to buy or sell any security. Redistribution is prohibited without permission.

For Recipients in Hong Kong: The research is prepared and issued by Morningstar Investment Management Asia Limited, which is regulated by the Hong Kong Securities and Futures Commission to provide investment research, non-discretionary investment consulting services, and discretionary investment management services to professional investors only. Neither Morningstar Investment Management Asia Limited, nor its representatives, are acting or will be deemed to be acting as an investment manager or advisor to any recipients of this information unless expressly agreed to by Morningstar Investment Management Asia Limited. For enquiries regarding this information, please contact a Morningstar Investment Management Asia Limited Licensed Representative at http://global.morningstar.com/equitydisclosures.

For Recipients in India: Research on securities as defined in clause (h) of section 2 of the Securities Contracts (Regulation) Act, 1956 ("Investment Research") is prepared by Morningstar Investment Adviser India Private Limited, which is registered with the Securities and Exchange Board of India. Investment Research is intended for educational purposes only; it is not intended to be an offer, solicitation, or call-to-action for the purchase or sale of a security. You should seek the advice of a financial professional before making an investment decision to ensure, among other things, that the security is suitable based on your particular needs and circumstances.