Mondelēz Union Network

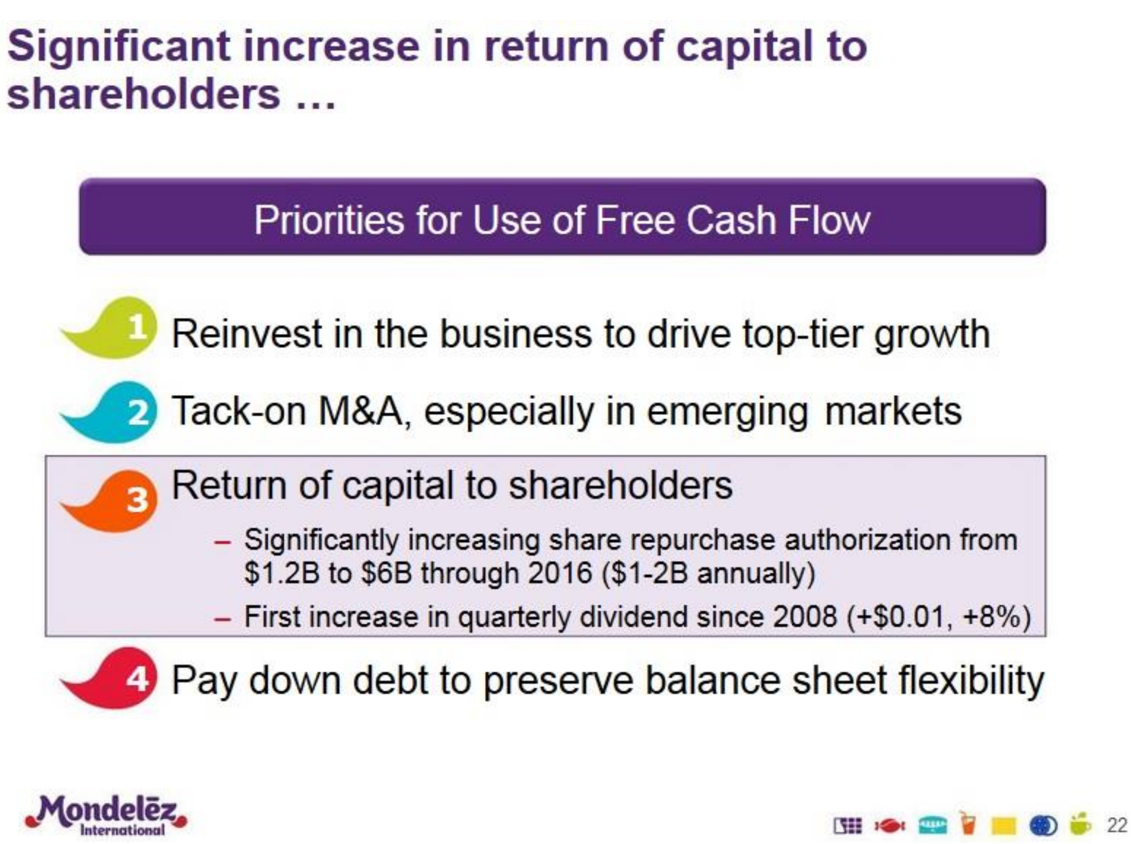
September 11, 2013

To seduce investors, war on workers

Two recent announcements by Mondelēz are the latest episodes in the company's ongoing efforts to seduce investors with increased share buybacks and bigger dividends and squeeze workers by generating uncertainty and fear through closures, cutbacks and increased competition.

In August, Mondelēz filed a presentation with the US Securities and Exchange Commission (SEC) outlining the company's past successes and ongoing commitment to delivering "significant increase in return of capital to shareholders." The presentation is misleading, in so far as it entirely omits the extreme levels of debt Kraft/Mondelēz took on (and is still struggling with) to pay for the acquisitions (Lu and Cadbury) behind the product and geographic shifts over the past 5 years. Revenue gaps were plugged by selloffs and capital expenditure reduced through outsourcing and closures. Layoffs and increased outsourcing are also a part of the margin gains Mondelēz puts at the center of the show. But that is not the point.

"We've delivered, and we can deliver even higher margins and share value" is the message addressed to investors like Nelson Peltz's Trian Fund and a wider Wall Street:



The strategy is to continue ramping up margins in developed markets to focus on growing “power brands” in developing countries:

Mondelēz put more flesh on the cash cow’s bones with a presentation to the September 3 [Barclay’s investor conference] in New York in what should constitute a sharp warning to workers.

http://www.confectionerynews.com/Manufacturers/Wrecking-ball-for-Mondelez-s-older-sites-as-supply-chain-overhaul-planned

The precise elements were laid out by EVP Integrated Supply Chain Daniel Myers, who told the Conference:

- ✓ Over the next three years, USD 1.5 billion in net productivity gains to free up a billion dollars cash;
- ✓ Older “subscale” units to be closed. How many units are subscale? “A number”, Myers said. Fourteen plants be constitute the global manufacturing hub, with model productivity programs introduced into another 100;
- ✓ Product and packaging streamlining – SKUs in European biscuits, for example, to be reduced from 4,000 to 2,500, with a reduction in production lines of 89 to 72. Next product streamline targets: European chocolate, North American biscuits;
- ✓ “Leverage low-cost suppliers” (the company’s recently announced punishing 120-day payment period will simplify the supplier base by stimulating survival-of-the-biggest-and-fittest competition);
- ✓ In addition to 8 new plants previously announced, 5 additional new facilities to be opened by 2020 to increase capacity by 28%;
- ✓ Oreo the model: *The company is installing Oreo manufacturing lines that require 30 percent less capital and reduce operating costs by $10 million per line. These "lines of the future" can be installed in one-third the time and provide double the capacity in half the space as older designs. The company is now implementing similar transformations for other biscuits Power Brands and the chocolate and gum categories* (Mondelēz September 3 press release).

Scheduled for opening in 2014, the Mondelēz USD 350 million biscuit plant in Monterrey, Mexico, claimed to be the world’s largest.

***Oreo*: “Imagine if…” became reality:**

- 30% reduction in capital cost
- $10MM in operating cost savings per line
- New capacity in 1/3 the time
- Modular design for 7 days start-up
- Global expansion in less than 6 months

Mondelēz Barclay’s investor presentation

This is what Mondelēz is telling investors. Meeting these targets while paying down the interest on debt – after bigger dividends have been paid while spending USD 6 billion on share buybacks - is only possible by radically squeezing workers and suppliers. The cascade of closures, transfers and downsizings since Kraft became Mondelēz which have already caused significant pain, pales in comparison with what this program promises to inflict.

Questioned by the *Wall Street Journal* in connection with the August SEC filing, company spokesperson Mike Mitchell said Mondelēz "Filed the presentation because it shared it with some investors recently, but he declined to say who. Mr. Peltz last month publicly stated that he was planning to meet with Mondelēz Chief Executive Irene Rosenfeld.

"'We meet with investors regularly, and as a matter of good practice, we file the presentations so that all investors have access to the information. In this case, while most of the information is already public, the historical margins for Mondelēz International are new disclosures, which required us to make the appropriate filing,' Mr. Mitchell said. A spokeswoman for Trian declined to comment."

The former Kraft Foods Inc. was notorious for announcing massive layoffs in connection with its financial results – without specifying where the cuts would fall. The Mondelēz 7-Year Plan follows this shock-and-awe pattern, as management benchmarks plant against plant and production line against production line. Mondelēz will also be shopping for tax and other favors, heightening the competition. The UK *Confectionery News* reported on August 29 that Australia's Liberal-National Coalition (which won the September general election) has promised USD 16 million to subsidize investment in upgrading the Cadbury plant in Hobart, Tasmania. The plan includes developing commercial cocoa cultivation in northern Australia. The full measure of subsidized support to the Mexico project will probably never come to light.

What is Mondelēz telling unions, while they "regularly" meet with investors? So far, nothing – so they will have to be asked. Whose "sub-scale" plant will be closed, what plants will receive new investment, what is the future of those that receive none? What is the future of work at Mondelēz, and why are there no workers in the powerpoint slides explaining to investors where the cash will go?

Mondelēz has shown no inclination to talk seriously with anyone *but* investors – and continues to refuse discussion with the IUF and its members about the destruction of a union in Egypt and other abuses. Union action is required.

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