Mondelēz Union Network

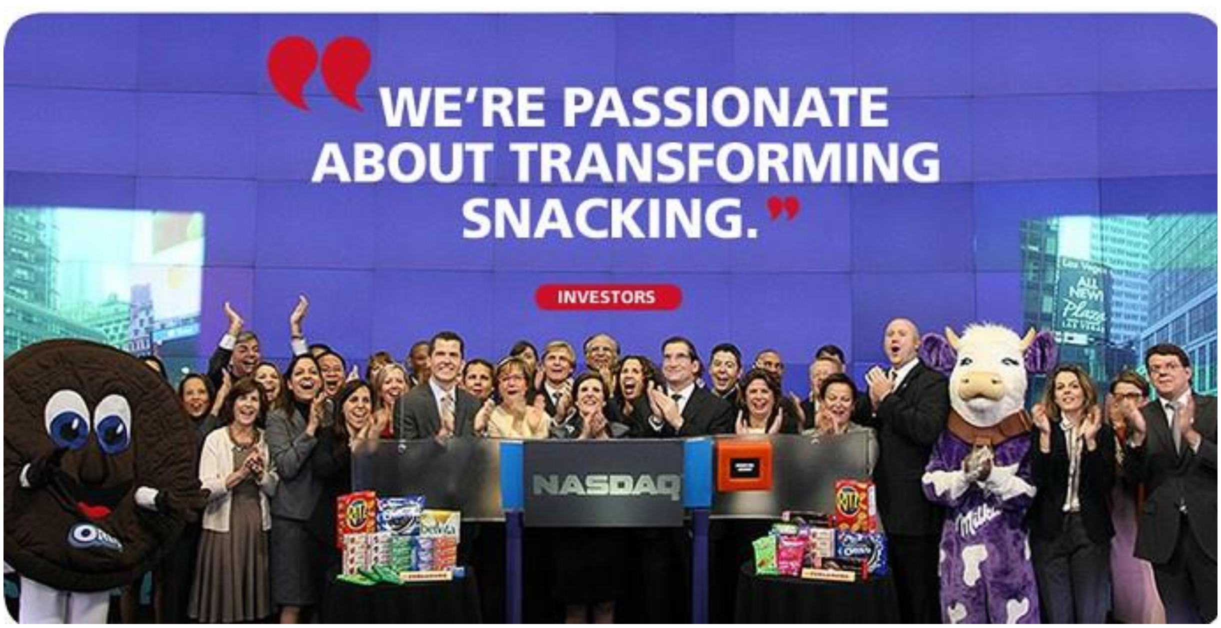
May 16, 2013

Behind the merger 'chatter' – more financial engineering

Is Mondelēz a food company or a financial construction? Snack products can be viewed as the end product of ingredients processed through human labour and marketed to consumers in a competitive environment needing people, patience and long-term investment. Or as incidental elements in short-term movements in a company's share price and debt offerings. Food or finance. Currently it is the latter which drives Mondelēz and the shifting coalition of investors trading in large blocks of stock in the company.

Asked to comment on recent rumors of a Mondelēz/PepsiCo merger, CEO Rosenfeld told Food navigator-usa.com, "We think any transaction could unlock additional value for shareholders, given the premium price that would be required. More specifically, we believe Mondelēz's stock could be worth about $38 per share." This would represent a 22.5% increase over the current share price of USD 31.

The Kraft/Mondelēz split was marketed as a move which would create dividends at Kraft and growth at Mondelēz (ironically, in the 6 months since the companies were separated, Kraft has performed substantially better). Kraft promised to double its dividend payments, but Mondelēz, which assumed the debt run up by Kraft on the road to becoming a "global snacks powerhouse", has no spare cash to pay out. Revenue is already severely squeezed by the interest payments it assumed to cut Kraft loose. Not much left for serious capital investment either, which takes time to bring results. So the share price is everything.



Investors are impatient for "growth". The big players who loaded up on Kraft stock in the run-up to the Cadbury deal have cashed in, sold their shares and left. There have been two substantial reshuffles in the top 10 shareholders – one immediately before and after the Kraft/Mondelēz split, and one beginning this spring with talk of a merger with PepsiCo. Warren Buffet's Berkshire Hathaway moved on, to a USD 28 billion [leveraged buyout of Heinz](). Hedge funds like Pershing Capital sold off but have since started buying back in.

The selloff, which left Mondelēz ownership slightly less concentrated (though still heavily so), opened the door for Nelson Peltz's Trian Fund to acquire shares and build potential coalitions. That Peltz was also loading up on PepsiCo shares fueled talks of merger – and spikes in both share prices. Peltz than increased his stake further and is now, according to the Financial Times, the sixth largest shareholder in Mondelēz.

Mondelez, PepsiCo shares up after report of Peltz stake

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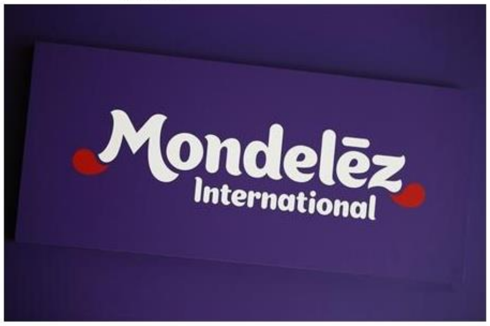

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By Martinne Geller
Fri Mar 22, 2013 5:02pm EDT

(Reuters) - Shares in top U.S. packaged food companies Mondelez International Inc (MDLZ.O) and PepsiCo Inc (PEP.N) jumped on Friday on speculation that they could merge, after a report that activist investor Nelson Peltz has taken stakes in

In her Food navigator interview, Rosenfeld muses about the potential value of merger "synergies". Those with memories longer than the usual financial analyst will recall that the Cadbury takeover was greased with talk of synergies. The synergies failed to materialize. So the talk shifted to "focus". Synergy is now back in fashion as a buzz word to cover the cuts, and debt load which mark the poor performance .

Rosenfeld: "These synergies equate to 4% of Mondelēz 2016 revenue (compared with 3-7% synergies as a percentage of sales obtained from other packaged food acquisitions)." How does Rosenfeld make this calculation, based on a hypothetical

Billionaire investor Peltz doubles Mondelez stake

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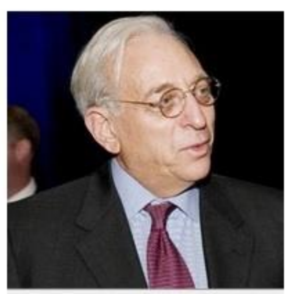


Nelson Peltz.
Bloomberg

Billionaire investor Nelson Peltz has doubled his hedge fund's stake in Deerfield-based Mondelez International Inc., **the Chicago Tribune reported today.**

Mr. Pletz **last month disclosed** a $494.2 million stake in Mondelez and a $269.1 million stake in PepsiCo as of Dec. 31. The move sparked talk that the billionaire corporate raider aims to reprise the two-act drama he **orchestrated three years ago** with Kraft Foods Inc. and Cadbury PLC.

Peltz's disclosures came at a sensitive time for both Mondelez and PepsiCo. Mondelez, which makes Oreo cookies, Ritz crackers and Cadbury chocolates, has stumbled in its first quarters as an independent company after splitting from Kraft Foods.

2016 revenue (perhaps it is a misprint)? Having sold the Kraft/Mondelēz split to investors on this basis, the company has never furnished a credible account of the synergies thus obtained. And synergies quickly yielded to “focus”.

Rosenfeld concluded the interview by stating “What remains to be seen is whether: (1) the firms can come to terms on a buyout; (2) the credit markets could support the nearly $46bn of debt needed to consummate the deal; and (3) regulators would ultimately approve such a transaction.

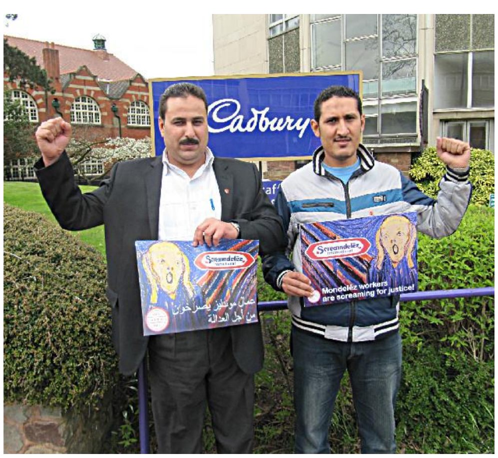
“Asked about the merger speculation, Rosenfeld told reporters yesterday that *‘there’s no question that there’s lots of chatter out there’*, but said she was not planning to comment on it.”

Ultimately, it comes down to this: forget about food, the deal is everything. Take on the maximum debt to leverage your gains (Kraft had plenty of experience with this). Cut back on capital expenditure and other long-term investment, outsource as much as you can, ride out the product recalls and any regulatory hassles, cash in your stock options. Bust a few unions along the way. Reward the advisers on the deal (whose banks also underwrite the debt and trade the stock) with hundreds of millions in fees. Watch your paper trail for insider trading. And then move on – leaving the workers behind to deal with the consequences.

The merger may never happen – the goal for now may be to force PepsiCo to sell part or all of its snacks business to Mondelēz (Peltz pushed Cadbury out of the beverage business, ultimately making the rest of the company an easier takeover target). As a stand-alone drinks company PepsiCo could then move from synergy to focus…Whatever the result, the “activists” will soon move on. New groups of investors will push for the freshest, latest deal.

None of this of course has anything to do with building a food business.

UK/ Egyptian unions 'twin' to stand up to human rights abuses at Mondelēz



Members of UNITE at UK Cadbury have joined forces with fellow workers in Egypt by 'twinning' their unions to challenge human rights violations by Cadbury's parent company Mondelēz International.

On May 2-3 Unite hosted two sacked union leaders from the Alexandria Cadbury plant - Nasr Awad (pictured at left) and Hussein Ahmad - 2 of the 5 founding members of an independent union who were brutally dismissed last year as part of the company's drive to crush the union. They met with union activists and politicians at the Council House in Birmingham, addressed the Birmingham Trades Union Council and then twinned their organizations in a ceremony with UNITE Cadbury workers at the Cadbury Bourneville Club.

Trades Union Council members were shocked and outraged to hear first-hand the brutal conditions under which Alexandria Cadbury workers produce "delicious moments of joy". "Health and safety is a huge problem at the Alexandria plant", said Nasr Awad, who almost lost a finger in an accident in 2004. He was more fortunate than Ahmad Abdulgani, a contract worker whose thumb was partially severed in a 2011 workplace accident. Abdulgani was sacked without compensation and has not found work since the accident.

Concerns for the future of the Cadbury business were forcibly expressed at the meeting with local community leaders and politicians at the Birmingham City Council the same day. Councilor Ian Ward and city council Chair Sir Albert Bore (at center) spoke of the general insecurity about the future of the Bourneville plant, which plays a key role in the local economy. Cadbury was once a business which respected the local community and workforce Since the Kraft takeover, and now Mondelēz, everything had changed.

On May 3. UNITE members from all UK Mondelēz sites gathered in Bournville and in a twinning ceremony pledged to join forces with workers and their union at Mondelēz Egypt to build solidarity across the company.

"Our members take this unjust attack on fellow sisters and brothers in Egypt very seriously and they will not stand by," said UNITE national officer Jennie Formby.

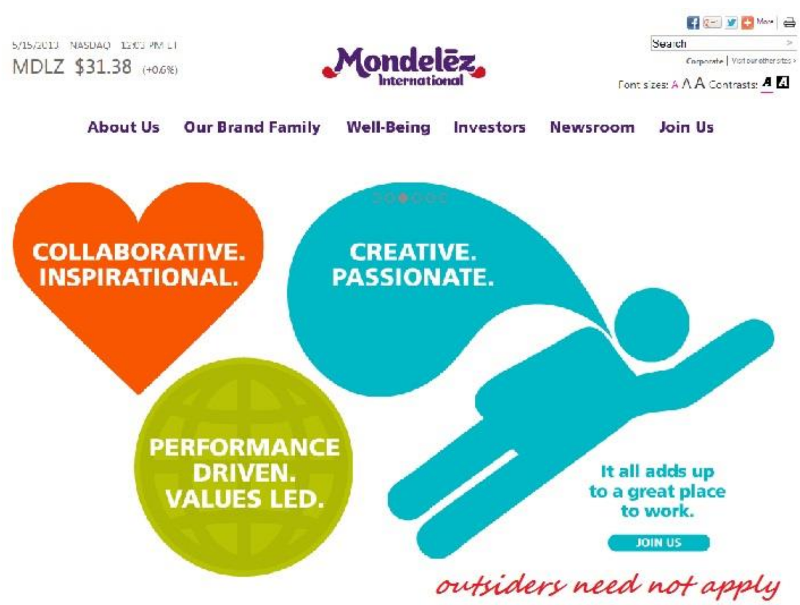
"We have approached the company at all levels, hoping to resolve these issues, but the company does' not respond", said Barrie Roberts, member of the Mondelēz European Works Council. "We must be louder to make the company respect, listen and talk to us".

Mondelēz Pakistan, where "outsiders' create 'delicious moments of joy'

Mondelēz Pakistan has informed the government that the vast majority of those who make its products are "outsiders" beyond the scope of legal industrial relations protection, and that those who challenge this abuse should be stripped of their rights.

At Mondelēz Pakistan 53 permanent workers and over 350 contract workers (150 of them in 'core' production positions) produce Cadbury-branded products.

Management has consistently refused to accept the union's demand for negotiations on the status of the agency workers, asserting that the union has no right to even raise such demands. The company petitioned for a lockout when the union filed for strike notice for April 1.



Now, during the mandatory conciliation period during which there can be neither strike nor lockout, the company has petitioned the National Industrial Relations Commission to bar the union from "unfair labour practices" such as holding public demonstrations, "slogan raising" or conducting union activities at the factory on the grounds that the vast majority of its workforce are "outsiders" whose interests the union may not advocate!

The union rejects these arrogant attacks on fundamental rights, and with the support of the IUF-affiliated national foodworkers federation and the IUF internationally will continue to press its demands.

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Mondelēz Union Network

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