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Mondelēz International Reports 2018 Results

Mondelēz International has reported its fourth quarter and full-year 2018 results

By **Kalyani Sharma** | January 31, 2019



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Key Strategic Initiatives

- Launched a new approach to marketing including more balanced investment across both global and iconic local brands to fully leverage the company’s portfolio and category-leading positions
- Developed a more locally-oriented commercial structure to drive greater consumer focus, improve speed and reduce complexity
- Introduced new incentive structure effective in 2019 to drive better alignment with key financial metrics to reward entrepreneurial behavior and quality of results
- Initiated expansion of research, development and quality capabilities to drive innovation, including a new technical center in India and additional investment in a state-of-the-art facility in Poland
- Deployed ‘test, learn and scale’ approach to innovation and launched SnackFutures, an innovation hub focused on the invention and reinvention of new brands, and venturing with entrepreneurs to seed new businesses in key strategic areas
- Announced divestiture of non-core cheese business in the Middle East & Africa, increasing the company’s focus on snacking
- Committed to making all packaging recyclable by 2025 to help deliver the company’s long-term vision for zero-net waste packaging and expanded the Cocoa Life sustainability program in Brazil

Fourth Quarter Commentary

- Net revenues declined 2.8 percent, driven by the impact of currency. Organic Net Revenue increased 2.5 percent driven by continued strength in emerging markets with a good balance of volume/mix and pricing.
- Gross profit declined $104 million and margin decreased 50 basis points to 37.6 percent, driven primarily by higher restructuring costs. Adjusted Gross Profit increased $147 million at constant currency and margin increased 90 basis points to 40.0 percent, driven by higher pricing and productivity savings partially offset by higher raw material costs.

- Operating income grew $40 million and margin increased 90 basis points to 12.8 percent, primarily due to the lapping of prior-year malware-related expenses and the benefit of an indirect tax matter. Adjusted Operating Income increased $79 million at constant currency and margin increased 50 basis points to 16.2 percent due to pricing and productivity savings partially offset by higher raw material costs and increased selling, general and administrative expenses.
- Diluted EPS was $0.56, up 22 percent driven primarily by Adjusted EPS growth.
- Adjusted EPS was $0.63, up 21 percent on a constant-currency basis, driven primarily by increased equity income and operating gains.
- Capital Return: The company repurchased approximately $400 million of its common stock and paid approximately $400 million in cash dividends.

Full Year Commentary

- Net revenues increased 0.2 percent, despite the impact of currency and divestitures. Organic Net Revenue increased 2.4 percent.
- Gross profit was up $318 million and margin increased 120 basis points to 39.9 percent. This change was driven primarily by favorable mark-to-market gains from currency and commodity hedging activities and lapping prior-year incremental malware costs. Adjusted Gross Profit dollars increased $352 million at constant currency and margin increased 40 basis points to 40.1 percent. This increase was driven primarily by higher pricing and productivity savings, partially offset by higher raw material costs.
- Operating income decreased $150 million and margin decreased 60 basis points to 12.8 percent, driven primarily by the impact from pension participation changes in North America and lapping the prior-year gain on a divestiture and prior-year benefit of an indirect tax matter. These unfavorable items were partially offset by favorable change in mark-to-market gains from currency and commodity hedging activities, lower restructuring program costs and the lapping of prior-year malware-related expenses. Adjusted Operating Income increased $257 million at constant currency and margin increased 60 basis points to 16.7 percent due primarily to Adjusted Gross Margin expansion.

- Diluted EPS was $2.28, up 23 percent driven primarily by an after-tax gain on the Keurig Dr Peppertransaction, favorable mark-to-market gains from currency and commodity hedging activities and lower restructuring program costs partially offset by the impact from pension participation changes.
- Adjusted EPS was $2.43 and grew 15 percent on a constant-currency basis, driven primarily by operating gains, share repurchases, increased equity income and tax favorability.
- Cash provided by operating activities was $3.9 billion. Free Cash Flow was $2.9 billion. Cash flow was primarily driven by working capital improvements and improved cash earnings.
- Capital Return: The company returned $3.4 billion of capital to shareholders through $2 billion in share repurchases and $1.4 billion in dividends.

Dirk Van de Put, Chairman and CEO said, “Our fourth quarter and full-year 2018 results demonstrate the power of our brands, the strength of our global footprint and the potential of our strategic plan. We delivered on our key financial and strategic commitments for the year, including solid top-line and bottom-line growth and strong cash flow generation. In 2019, we will continue to progress against our new strategy, which includes new investments to drive organic revenue growth and operational excellence across the organization.”

The company continues to expect Organic Net Revenue growth to be between 2 and 3 percent. The company maintains its outlook for Adjusted EPS growth of 3 to 5 percent on a constant-currency basis. The company estimates currency translation would decrease net revenue growth by approximately 3 percent3 with a negative $0.07 impact to Adjusted EPS3. In addition, the company continues to expect Free Cash Flow of approximately $2.8 billion.

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