

Kraft Foods Group Reports Second Quarter 2013 Results

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- *Q2 EPS of \$1.38 included a \$0.62 gain from market-based impacts to post employment benefit plans*
- *2013 EPS guidance increased to approximately \$3.40 from approximately \$2.75 primarily reflecting market-based impacts to post-employment benefit plans*
- *2013 Free Cash Flow¹ target raised to approximately \$1.2 billion from approximately \$1 billion*

“We continue to make meaningful progress on cost savings, cash flow, market share and building our brands for the long term,” said Tony Vernon, CEO of Kraft. “Our brand investments and top-line growth in the second quarter were held back by the return discipline we’re applying to marketing, promotion and innovation. We expect to see profitable growth from a stronger base going forward and greater revenue growth in subsequent quarters as more new initiatives come to market.”

Q2 FINANCIAL SUMMARY

Net revenues in the second quarter declined 1.1 percent to \$4.7 billion

- Organic Net Revenues² declined 1.2 percent from lower volume/mix of 0.9 percentage points and 0.3 percentage points due to lower pricing.
- The timing of Easter shipments negatively impacted net revenue growth between 0.5 and 1.0 percentage points while product line pruning negatively impacted growth by approximately 1.0 percentage point.

Operating income in the second quarter increased 53.5 percent to \$1.4 billion.

- Results included a \$604 million benefit from market-based impacts to post-employment benefit plans driven by higher discount rates and higher asset returns. Implementation of a voluntary early retirement program triggered a mid-year remeasurement of select pension plans.
- Excluding the market-based impacts to post-employment benefit plans, gains from productivity and overhead cost savings were more than offset by a combination of increased marketing expenses, the impact of lower volume and higher Restructuring Program³ costs versus the prior year quarter.

Earnings per share in the second quarter were \$1.38.

- Results included a \$0.62 benefit from market-based impacts to post-employment benefit plans.
- Second quarter results also included \$0.09 per share of Restructuring Program costs.
- Interest expense in the quarter was \$130 million or approximately \$0.14 per share, reflecting the company’s capital structure as an independent company.

Free Cash Flow was \$399 million year-to-date.

- Free Cash Flow continued to pace ahead of expectations due to improved working capital management.

HIGHLIGHTS BY REPORTING SEGMENT

Beverages:

- Revenues declined reflecting lower prices from higher levels of promotional activity as well as lower green coffee costs versus the prior year. This more than offset improved product mix from on-demand coffee and liquid water enhancer innovations.
- Operating income was lower than the prior year quarter reflecting higher marketing costs that were partially offset by favorable pricing net of commodity costs.

Cheese:

- Revenues increased from a combination of higher prices, volume gains and improved product mix with significant gains in *Kraft* natural cheeses and *Velveeta*.
- Operating income declined slightly due to unfavorable pricing net of commodity costs versus an exceptionally positive prior year period.

Refrigerated Meals:

- Ongoing revenue growth from *Lunchables* innovations and the benefits of pricing to cover higher commodity costs were more than offset by volume softness in cold cuts and the impact of Easter shipment timing on bacon volume versus the prior year.
- Operating income declined due to a negative impact from pricing net of commodity costs versus a strong prior year period and higher marketing expenses, which were partially offset by significant productivity gains.

Grocery:

- Revenues declined as top-line gains from investments in innovation behind brands such as *Velveeta* dinners and *Planters* snack nuts were more than offset by weakness in *Kraft* spoonable and pourable dressings and *JELL-O*.
- Operating income declined as significantly higher marketing investments and lower volumes more than offset overhead cost savings.

International & Foodservice:

- Strong revenue growth in Canada from *Philadelphia* cream cheese, *Kraft* peanut butter, *Kraft* Singles and natural cheese and *MiO* liquid water enhancers was partially offset by product line pruning in Foodservice.
- Double-digit operating income growth reflected improved product mix and lower manufacturing costs driven by net productivity gains, partially offset by significant marketing investments.

OUTLOOK

“Our focus on cost and cash is providing the fuel to reinvest in our brands while delivering better-than-expected Free Cash Flow,” said Tim McLevish, CFO of Kraft.

Kraft updated its guidance for 2013, including:

- Organic Net Revenue growth expected to be in line with or slightly lower than the growth of the North American food and beverage market;
- EPS of approximately \$3.40, including the \$0.62 year-to-date benefit from market-based impacts to post-employment benefit plans, versus approximately \$2.75 previously; and

- Free Cash Flow of approximately \$1.2 billion versus approximately \$1.0 billion previously.

CONFERENCE CALL

Kraft will host a conference call to discuss its second quarter 2013 results today at 4 p.m. Central time.

The call will be hosted by:

- Tony Vernon, CEO
- Tim McLevish, EVP and CFO
- Chris Jakubik, VP, Investor Relations

Live Event Dial-in Details:

United States Dial-In: 1-888-350-0137

International Dial-In: 1-970-315-0478

Access code: 16551214

To ensure timely access, participants should dial in approximately 10 minutes before the call starts. A listen-only webcast will be available to the general public in real time on Kraft's Web site at <http://ir.kraftfoodsgroup.com>.

A replay of the conference call will be available until August 14, 2013, by calling 855-859-2056 from the United States and Canada, and 404-537-3406 from other locations. The access code for the replay is 16551214. An archive of the webcast will be available for one year at <http://ir.kraftfoodsgroup.com>, under "Events and Webcasts."

ABOUT KRAFT FOODS GROUP

Kraft Foods Group, Inc. (NASDAQ: KRFT) is one of North America's largest consumer packaged food and beverage companies, with annual revenues of more than \$18 billion. The company has an unrivaled portfolio of products in the beverages, cheese, refrigerated meals and grocery categories. Its iconic brands include *Kraft*, *Maxwell House*, *Oscar Mayer*, *Philadelphia*, *Planters*, *Velveeta*, *Capri Sun*, *Lunchables* and *JELL-O*. Kraft's 23,000 employees in the United States and Canada have a passion for making the foods and beverages people love. Kraft Foods Group is a member of the Standard & Poor's 500 and the NASDAQ-100 indices. For more information, visit www.kraftfoodsgroup.com and www.facebook.com/kraft.

FORWARD-LOOKING STATEMENTS

This press release contains a number of forward-looking statements. The words "deliver," "continue," "will," "expect" and similar expressions are intended to identify the forward-looking statements. Examples of forward-looking statements include, but are not limited to, statements regarding Kraft's growth, progress, marketing and innovation, cost savings, Organic Net Revenue growth, EPS and Free Cash Flow. These forward-looking statements are not guarantees of future performance and are subject to a number of risks and uncertainties, many of which are beyond Kraft's control. Important factors that could cause actual results to differ materially from those indicated in the forward-looking statements include, but are not limited to, increased competition; continued consumer weakness and weakness in economic conditions; Kraft's ability to differentiate its products from retailer and economy brands; Kraft's ability to maintain its reputation and brand image; continued volatility and increases in commodity and other input costs; pricing actions; increased costs of sales; regulatory or legal changes, restrictions or actions; unanticipated expenses and business disruptions; product recalls and product liability claims; unexpected safety or manufacturing issues; Kraft's indebtedness and its ability to pay its indebtedness; Kraft's inability to protect its intellectual property rights; tax law changes; Kraft's ability to achieve the benefits it expects to achieve from the spin-off and to do so in a timely and cost-effective manner; and its lack of operating history as an independent, publicly traded company. For additional information on these and other factors that could affect Kraft's forward-looking statements, see Kraft's risk factors, as they may be amended from time to time, set forth in its filings with the Securities and Exchange Commission, including its Annual Report on Form 10-K for the year ended December 29, 2012. Kraft disclaims and does not undertake any obligation to update or revise any forward-looking statement in this press release, except as required by applicable law or regulation.

NON-GAAP FINANCIAL MEASURES

Kraft reports its financial results in accordance with accounting principles generally accepted in the United States (“GAAP”).

Kraft’s top-line measure is Organic Net Revenues, which Kraft defines as net revenues excluding the impact of transactions with Mondelez International, Inc., acquisitions, divestitures (including the termination of a full line of business due to the loss of a licensing or distribution arrangement, and the complete exit of business out of a foreign country), currency and the 53rd week of shipments in 2011. Organic Net Revenues is a non-GAAP financial measure that management believes better reflects the underlying growth from the ongoing activities of Kraft’s business and provides improved comparability of results

Kraft uses Free Cash Flow, which Kraft defines as cash flow from operations less capital expenditures. Free Cash Flow is a non-GAAP financial measure that management believes better reflects the cash available to invest in growth and product development and is a better measure of Kraft’s ability to generate cash while maintaining its fixed assets.

See the attached schedules for supplemental financial data and corresponding reconciliations of the non-GAAP financial measures referred to above to the most comparable GAAP financial measures for the three months ended June 29, 2013 and June 30, 2012. Non-GAAP financial measures should be viewed in addition to, and not as an alternative for, Kraft's results prepared in accordance with GAAP. In addition, the non-GAAP measures Kraft uses may differ from non-GAAP measures used by other companies, and other companies may not define the non-GAAP measures Kraft uses in the same way.

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[View entire release with tables](#)

¹ Free Cash Flow is a non-GAAP financial measure and is defined as cash flow from operations (~\$1.85 billion) less capital expenditures (~\$650 million). Please see the discussion of non-GAAP financial measures at the end of this press release.

² Organic Net Revenues is a non-GAAP financial measure. Please see the discussion of non-GAAP financial measures and the reconciliation to GAAP at the end of this press release.

³ As previously disclosed, on Oct. 29, 2012, Kraft Foods Group’s Board of Directors approved a \$650 million restructuring, related implementation and spin-off transition program (“Restructuring Program”) reflecting primarily severance, asset disposals, other manufacturing-related one-time costs and professional service fees within its finance, legal and information systems functions.