

## Kraft Foods Group Reports Third Quarter 2013 Results

October 30, 2013 11:40 AM ET

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- *Q3 Net Revenues were 4.2% lower and Organic Net Revenues<sup>1</sup> were down 4.1% primarily due to comparisons with higher, spin-off related shipments in the prior year*
- *Q3 EPS of \$0.83 included an \$0.18 gain from market-based impacts to post-employment benefit plans and a negative \$0.05 impact from changes in unrealized gains/losses from hedging activities*
- *2013 EPS guidance increased to approximately \$3.58 from approximately \$3.40 due to market-based impacts to post-employment benefit plans*

NORTHFIELD, Ill. – Oct. 30, 2013 – Kraft Foods Group, Inc. (NASDAQ: KRFT) today reported third quarter results that reflected significant cost savings that outpaced brand-building reinvestments, as well as a negative impact from comparisons with unusually high product shipments in the prior year period. Last year, the company shipped safety stock to retailers ahead of a systems changeover as part of the spin-off from Mondelēz International.

“The unusual nature of last year’s Q3 results obscures our steady progress in remaking the best brand portfolio in the food and beverage industry,” said Kraft CEO Tony Vernon. “There’s no question it’s a difficult environment for our consumers and customers. We remain confident that our disciplined approach to growing our brands and driving cost savings will enable us to continue delivering the consistent returns our shareholders expect.”

### Q3 FINANCIAL SUMMARY

#### Net revenues declined 4.2 percent to \$4.4 billion

- Organic Net Revenues declined 4.1 percent from lower volume/mix of 3.1 percentage points and 1.0 percentage point due to lower pricing.
- The decline in volume/mix reflected a negative impact of approximately 3 percentage points from comparisons with shipments of safety stock to customers ahead of last year’s spin-off from Mondelēz International, an approximately 1 percentage point reduction from product line pruning, and base business gains of approximately 1 percentage point.

#### Operating income increased 14.9 percent to \$870 million.

- Operating income included a \$175 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 in early 2013 triggered a third quarter remeasurement of select pension plans
- Excluding the market-based impacts to post-employment benefit plans, gains from overhead cost reductions and productivity were offset by unfavorable pricing net of commodity costs, lower volumes, an unfavorable year-over-year change in unrealized gains/losses from hedging activities and higher marketing investments versus the prior year.

#### Earnings per share were \$0.83, an increase of \$0.04 or 5.1 percent versus the prior year.

- EPS in this quarter included an \$0.18 benefit from market-based impacts to post-employment benefit plans.
- Excluding this benefit, EPS was lower than the prior year due to a \$0.05 unfavorable year-over-year change in unrealized gains/losses from hedging activities, lower volumes, a higher year-over-year tax rate and higher interest expense.

#### Free Cash Flow<sup>2</sup> was \$745 million year-to-date.

- Free Cash Flow generation reflected the negative impact of more than \$600 million in pension plan contributions, partially offset by improved management of working capital.

## HIGHLIGHTS BY REPORTING SEGMENT

### Beverages:

- Revenues declined due to lower prices from higher levels of merchandising activity for *Capri Sun* and *Kool-Aid Jammers* as well as the pass-through of lower green coffee costs versus the prior year.
- Improved product mix from on-demand coffee, liquid water enhancer innovations and *Gevalia* premium coffee more than offset a negative volume impact from comparisons with spin-off related shipments in the prior year period.
- Operating income declined due to unfavorable pricing net of commodity costs, unfavorable volume/mix versus the prior year and higher investments in marketing. These factors more than offset benefits from overhead savings and lower Restructuring Program<sup>3</sup> costs.

### Cheese:

- Revenue performance reflected higher prices and steady growth in *Kraft* natural cheeses and *Velveeta* slices that more than offset the negative volume impact from comparisons with spin-off related shipments in the prior year period.
- Operating income increased due to the timing of advertising expenditures versus the prior year, overhead cost savings and productivity gains. These gains more than offset a negative impact from pricing net of commodity costs versus a strong prior year period.

### Refrigerated Meals:

- Continued revenue gains from *Lunchables* innovation, *Oscar Mayer* bacon and hot dog growth, as well as increased pricing to cover commodity costs were more than offset by the negative impact from comparisons with spin-off related shipments in the prior year period.
- Operating income declined due to a negative impact from pricing net of commodity costs versus the prior year and higher investments in marketing.

### Meals & Desserts:

- Revenues declined due to a negative volume impact from comparisons with spin-off related shipments in the prior year period. Excluding this factor, ongoing growth of *Velveeta* dinners was largely offset by softness in *JELL-O* desserts.
- Operating income declined due to lower volumes. Significant marketing investments to rebuild brand equity were largely offset by overhead cost savings.

### Enhancers & Snack Nuts:

- Revenues declined significantly due to volume weakness in salad dressings and mayonnaise as well as lower prices driven by lower nut costs versus the prior year. These factors more than offset solid volume growth and improved product mix from *Planters* snack nuts.
- Operating income was flat as overhead cost savings, productivity gains and improved product mix offset unfavorable pricing net of commodity costs, lower volumes and higher marketing investments versus the prior year.

### Canada:

- Revenues declined from the combination of a negative volume impact of approximately 4 percentage points from comparisons with spin-off related shipments in the prior year period and lower prices on *Kraft* peanut butter. This more

than offset strong double-digit growth in *Tassimo* coffee and volume gains in *Kraft* peanut butter.

- Strong operating income growth primarily reflected the benefit of cost savings initiatives.

#### **Other Businesses:**

- Revenues declined predominantly due to product line pruning in the Foodservice business.
- Double-digit operating income growth reflected better alignment of prices and input costs versus the year-ago period and lower advertising spending.

#### **OUTLOOK**

“While the impact from last year’s spin-related trade inventory build was significant to our year-over-year performance this quarter, we remain on track to deliver the underlying earnings and cash flow we previously outlined,” said Kraft CFO Tim McLevish.

Kraft updated its guidance for 2013, including:

- Organic Net Revenue growth that, consistent with previous guidance, is expected to be in line with or slightly lower than the growth of the North American food and beverage market.
- EPS of approximately \$3.58 versus approximately \$3.40 previously, reflecting the additional \$0.18 benefit from market-based impacts to post-employment benefit plans.
- Free Cash Flow<sup>4</sup> of approximately \$1.2 billion, consistent with previous guidance.

#### **CONFERENCE CALL**

Kraft will host a conference call to discuss its third 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: 74421662

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 Nov. 12, 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 74421662. 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 is a member of the Standard & Poor's 500 and the NASDAQ-100 indices. For more information, visit [www.kraftfoodsgroup.com](http://www.kraftfoodsgroup.com) and [www.facebook.com/kraft](http://www.facebook.com/kraft).

## **FORWARD-LOOKING STATEMENTS**

This press release contains a number of forward-looking statements. The words "deliver," "may," "remain," "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, 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; volatility of market-based impacts to post-employment benefit plans; 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**

To supplement Kraft's financial statements presented in accordance with generally accepted accounting principles in the United States of America ("GAAP"), Kraft presents Organic Net Revenues and Free Cash Flow, both of which are considered non-GAAP financial measures. The presentations of Organic Net Revenues and Free Cash Flow are intended to supplement investors' understanding of Kraft's operating results and liquidity. 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.

Kraft currently defines Organic Net Revenues as net revenues excluding the impact of transactions with Mondelēz International, 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. Management believes that presenting Organic Net Revenues is useful to investors because it (i) provides investors meaningful supplemental information regarding financial performance by excluding certain items, (ii) permits investors to view Kraft's performance using the same tools that management uses to budget, make operating and strategic decisions, and evaluate Kraft's historical performance, and (iii) otherwise provides supplemental information that may be useful to investors in evaluating Kraft.

Kraft defines Free Cash Flow as cash flow from operations less capital expenditures. Management believes that Free Cash Flow is useful to investors because it reflects Kraft's cash available for uses including investments in growth and product development and it reflects Kraft's ability to generate cash while maintaining its fixed assets.

See the attached schedules for supplemental financial data and corresponding reconciliations of Organic Net Revenues to net revenues for the three months ended Sept. 28, 2013 and Sept. 30, 2012.

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[View entire release with tables](#)

<sup>1</sup> 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.

<sup>2</sup> Free Cash Flow 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.

<sup>3</sup> As previously disclosed, on Oct. 29, 2012, Kraft'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.

<sup>4</sup> Free Cash Flow is a non-GAAP financial measure and is defined as cash flow from operations (~\$1.8 billion) less capital expenditures (~\$600 million). Please see the discussion of non-GAAP financial measures at the end of this press release.