



Stock Story: Mondelez

Snacking away at global growth.

Over the last decade, Mondelez, one of the world's largest snacking companies, has evolved and strengthened its economic moat, reaccelerated growth and increased the reliability of its earnings algorithm.

Although Mondelez itself is a young company, following the split from Kraft Foods in 2012, it stands on the shoulders of a portfolio of iconic, century-old brands including Cadbury, Oreo, Milka and Ritz. Its global biscuit and chocolate categories have delivered steady compound growth of ~+4.5% between 2009 and 2023* and exhibited strong pricing power, rational competition and minimal disruption from private label manufacturers. Thanks to its differentiated brands, product innovation and marketing, Mondelez holds dominant #1 and #2 market share positions in these categories, which together account for 80% of its \$36b global revenue base. As a result of its dominance, Mondelez is in a position of strength to negotiate with its key retail partners on pricing programs, shelf allocation and innovation launches. Likewise, its scale advantage across marketing, distribution, research and development, and ingredient procurement are the key foundations of its economic moat.

However, there have been times in the company's history, most recently 2014 to 2018, when poor execution weighed on top-line growth and brand momentum. Mondelez's previous governance structures were rigid, and decision-making was centralised and top-down focused. Prior management teams were too concentrated on cost control and short-term profitability at the expense of innovation and marketing reinvestments to support the long-term brand equity of the portfolio. While global 'power brands' remained a focus, unfortunately there was a long tail of underperforming local brands, which weighed on growth, created complexity within its manufacturing operations and affected their trusted partner status with key retailers.

The acceleration in Mondelez's growth in more recent years has been driven by the culmination of various deliberate actions by the current management team to introduce a longer-term

mindset to brand investments and portfolio management. The prior organisational structure was redesigned, decentralising core operations to bring greater decision-making power to the regional teams who know the local consumer best. Complementing this, a new remuneration framework was introduced to incentivise balanced revenue growth and sustainable margin expansion. Importantly, this framework also aimed to minimise short-term, irrational decisions such as excessive discounting to boost market share growth, and underinvestment in marketing to achieve profitability targets.

These improved foundations have bolstered the key tenets of Mondelez's economic moat and unlocked growth across the business. Since the strategy was first implemented in 2018, the business has delivered ~+8% organic revenue growth and ~+12% constant currency EPS growth, which are well above its long-term objectives of +3-5% and +7-9% respectively. The company has achieved these objectives despite increasing its advertising budget by around 75% and investing in strategic capabilities such as consumer analytics, manufacturing automation and various digital tools to optimise procurement planning and reduce wastage.

Mondelez's in-depth knowledge of its snacking consumer is a key competitive advantage, particularly as the company continues to evolve its portfolio alongside changing consumer preferences. Recently, Mondelez has disposed of certain chewing gum and high-sugar candy brands while remaining focused on its core biscuits and chocolate products that consumers continue to seek out as permissible indulgences. The advent of GLP-1 weight-loss drugs will likely create new consumption trends for a subset of Mondelez's developed market consumers, which the company will need to monitor closely and continue to adapt to. Meanwhile in emerging markets, which account for 39% of total revenue, tailwinds to category growth from rising middle class incomes, premiumisation and expanding distribution to new cities should be enduring.

Mondelez's consumer data advantage, sophisticated manufacturing and distribution capabilities as well as its financial capacity to acquire new brands, position it well to continue to evolve its portfolio and remain an incumbent snacks player over the long term. A capable management team, together with improved governance and incentive structures, further enhances our conviction.

Lucina Martin, Investment Analyst

Sources: Euromonitor

 info@magellangroup.com.au

 +61 2 9235 4888

Important Information: This material has been delivered to you by Magellan Asset Management Limited ABN 31 120 593 946 AFS Licence No. 304 301 ('Magellan') and has been prepared for general information purposes only and must not be construed as investment advice or as an investment recommendation. This material does not take into account your investment objectives, financial situation or particular needs. This material does not constitute an offer or inducement to engage in an investment activity nor does it form part of any offer documentation, offer or invitation to purchase, sell or subscribe for interests in any type of investment product or service. You should obtain and consider the relevant Product Disclosure Statement ('PDS') and Target Market Determination ('TMD') and consider obtaining professional investment advice tailored to your specific circumstances before making a decision about whether to acquire, or continue to hold, the relevant financial product. A copy of the relevant PDS and TMD relating to a Magellan financial product may be obtained by calling +61 2 9235 4888 or by visiting www.magellangroup.com.au

Past performance is not necessarily indicative of future results and no person guarantees the future performance of any financial product or service, the amount or timing of any return from it, that asset allocations will be met, that it will be able to implement its investment strategy or that its investment objectives will be achieved. This material may contain 'forward-looking statements'. Actual events or results or the actual performance of a Magellan financial product or service may differ materially from those reflected or contemplated in such forward-looking statements.

This material may include data, research and other information from third party sources. Magellan makes no guarantee that such information is accurate, complete or timely and does not provide any warranties regarding results obtained from its use. This information is subject to change at any time and no person has any responsibility to update any of the information provided in this material. Statements contained in this material that are not historical facts are based on current expectations, estimates, projections, opinions and beliefs of Magellan. Such statements involve known and unknown risks, uncertainties and other factors, and undue reliance should not be placed thereon. No representation or warranty is made with respect to the accuracy or completeness of any of the information contained in this material. Magellan will not be responsible or liable for any losses arising from your use or reliance upon any part of the information contained in this material.

Any third-party trademarks contained herein are the property of their respective owners and Magellan claims no ownership in, nor any affiliation with, such trademarks. Any third-party trademarks that appear in this material are used for information purposes and only to identify the company names or brands of their respective owners. No affiliation, sponsorship or endorsement should be inferred from the use of these trademarks. This material and the information contained within it may not be reproduced, or disclosed, in whole or in part, without the prior written consent of Magellan. MC454