



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.

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Sources: Euromonitor



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