




Inform Your Instinct

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Agenda

- A Massive Online Conversation About What's In Our Food
- The Rise of Challenger Brands
- The Growing Importance of U.S. Hispanic Consumers
- E-Commerce and New Models
- Emerging Market Opportunities
- 3G Capital and the Cost-Cutting Mandate
- What Will It Take To Win?

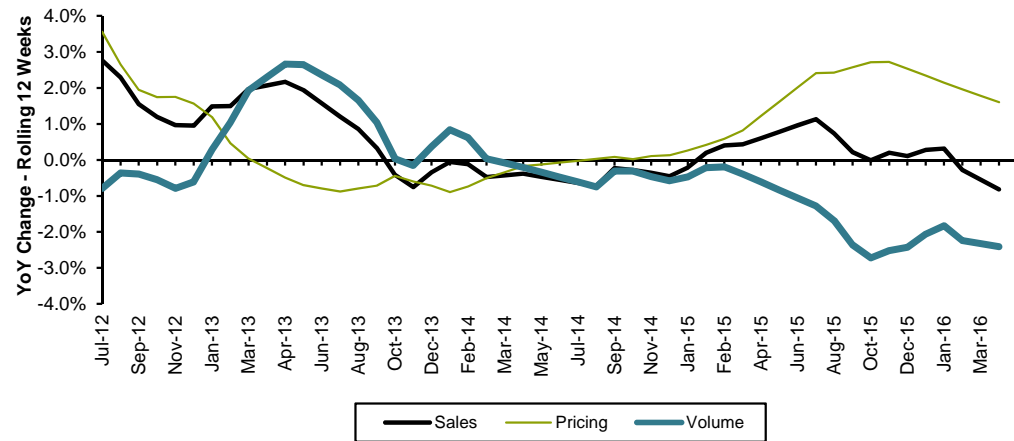


A Massive Online Conversation About What's In Our Food

What's changing today?

Sales volumes are declining for large food companies

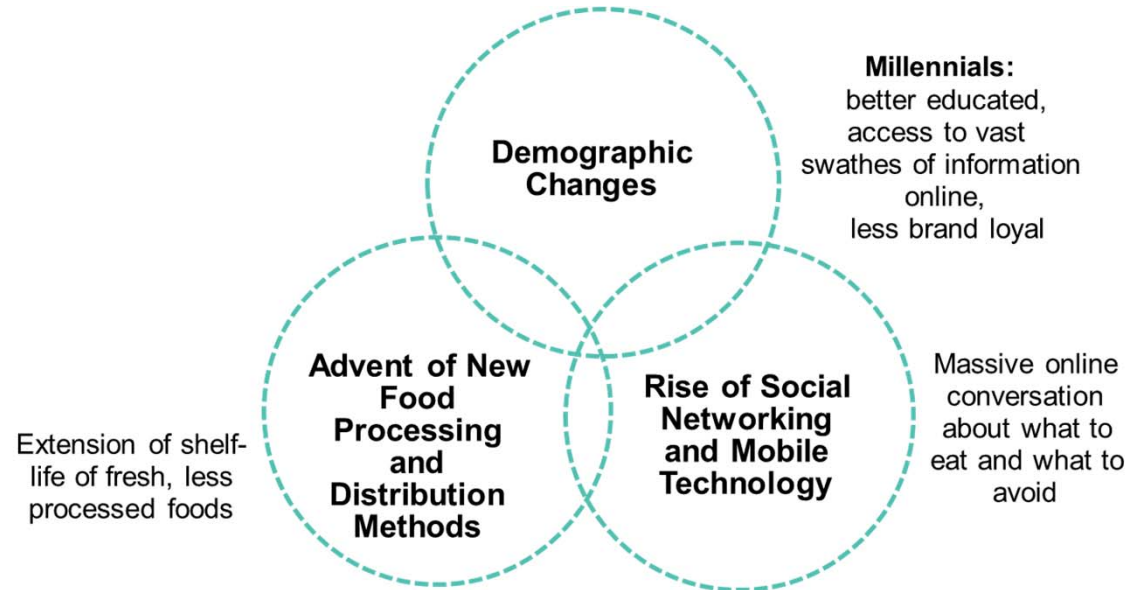
Drivers of Sales Growth for U.S. Packaged Food Companies



Source: Nielsen's Scantrack enhanced AOC +C, Bernstein analysis and estimates. Includes KHC, MDLZ, GIS, K, CAG, CPB and MKC

Why has the US Food industry taken a new direction?

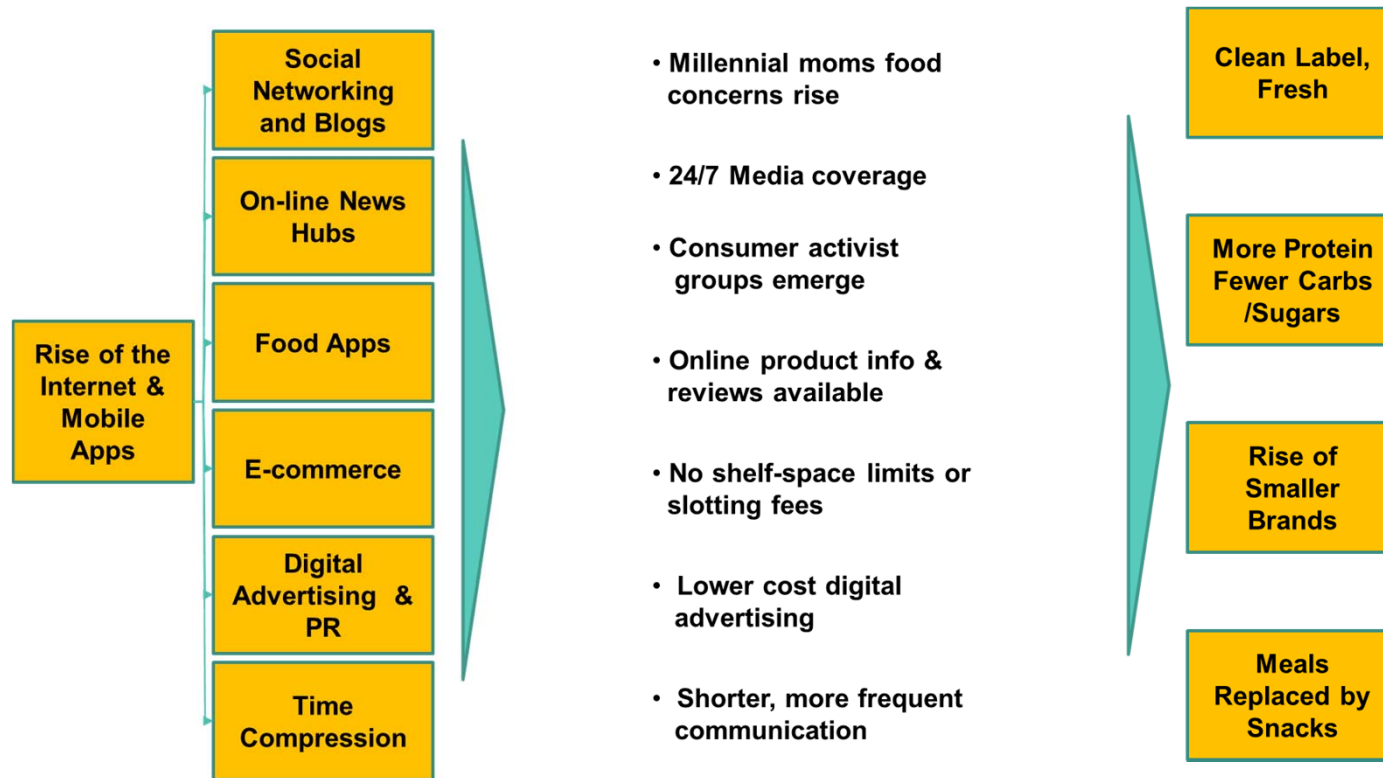
Several forces are at play here:



Source: Bernstein observations



Social networking is transforming packaged food

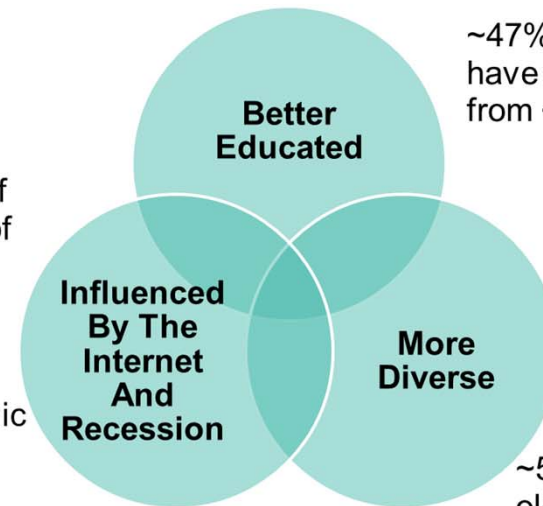


Source: Bernstein observations

The Millennials have arrived!

Most have come of age after the rise of the internet, and many formed new households (or delayed doing so) during the economic slowdown

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~47% of 25 – 34 year olds have a college degree, up from ~30% in 1992


~58% of 15 – 34 year olds are Caucasian, down from ~78% in 1980

Moms are very influential

Moms of children under 10 years old are ~15% of US adults ...

... but they make up ~50% of choices about what to eat at home

Importance of Millennial Moms	# Households (millions)	# People Per Household	Total Mouths to Feed (millions)	% Total Meals Eaten at Home in US
Total US Population	104	3.1	319	100%
Moms of Children < 10 Yrs	35	4.6	160	50%
Millennial Moms of Children < 10 Yrs	21	4.6	97	30%

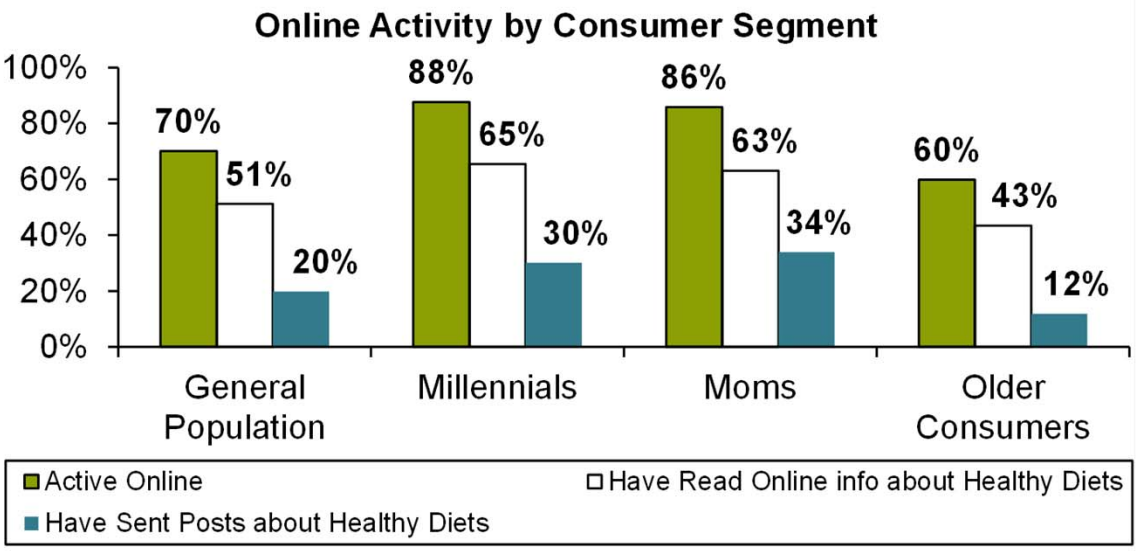


Source: MRI, U.S. Census and Bernstein analysis



Moms are jumping into the online conversation about food

Over 30% of Millennials and moms have posted online about healthy eating

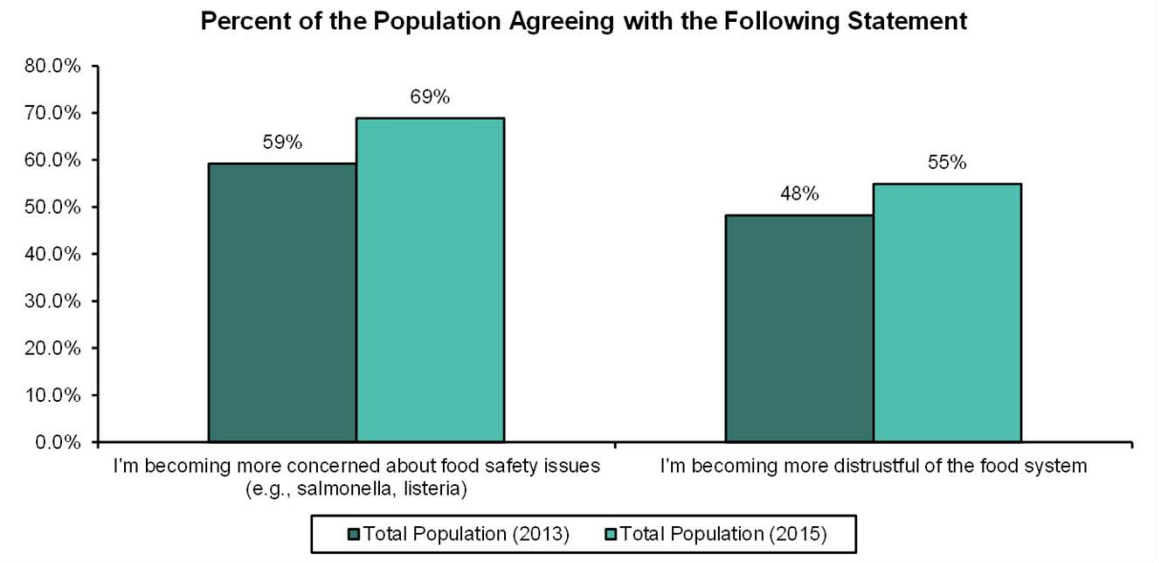


Source: Bernstein U.S. Food Survey (2013).



People are becoming more distrustful of the food system

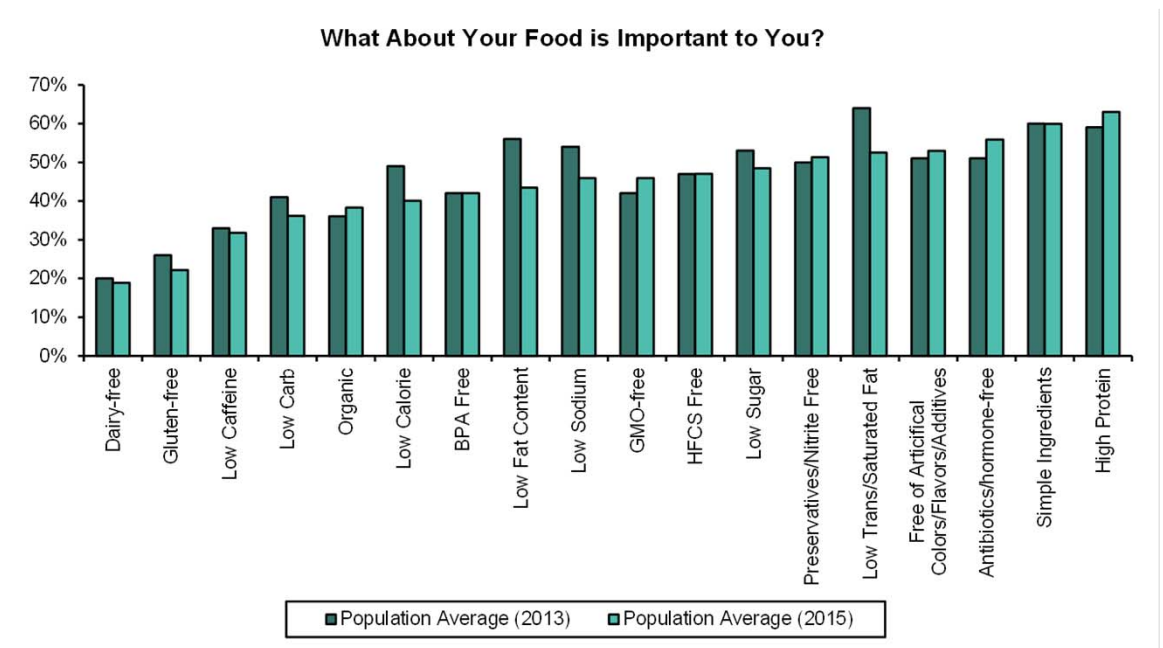
Over half the population now reports that they are becoming more distrustful of the food system



Source: Bernstein U.S. Food Survey (2013).

Health concerns among the broader U.S. population

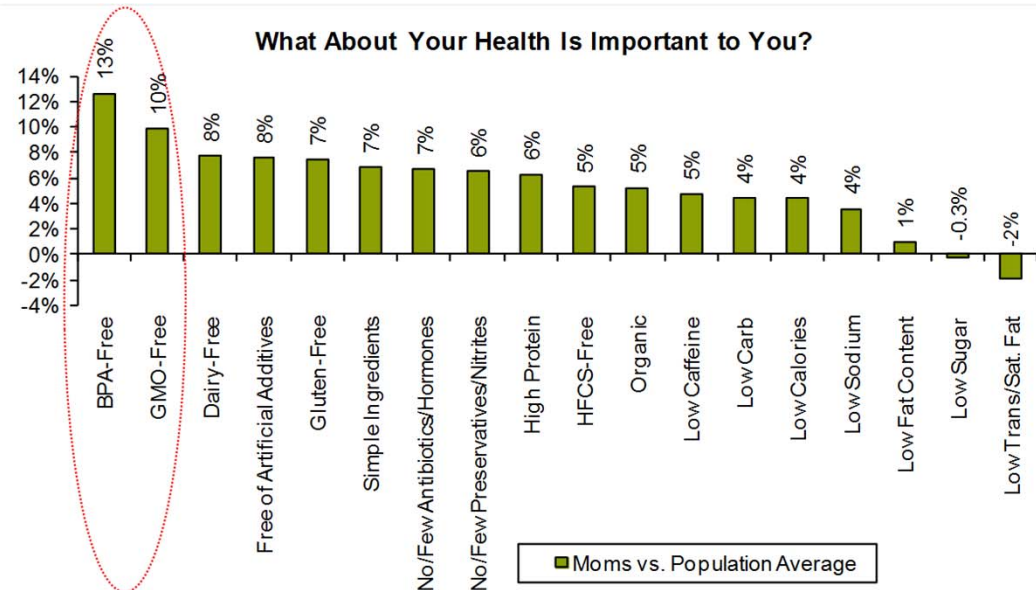
Across the U.S. population, the biggest food concerns are no longer low trans/saturated fats but are now simple ingredients



Source: Bernstein U.S. Food Survey (2013, 2015).

Consumers are becoming increasingly worried about GMOs

Moms of young children are 10% more likely than the average population to be worried about GMOs

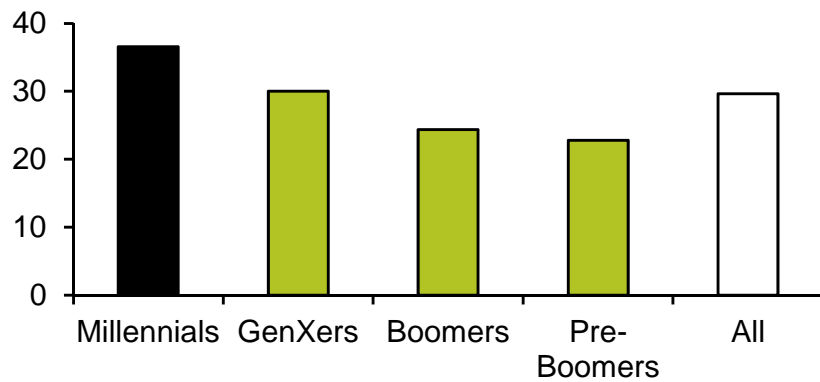


Source: Bernstein U.S. Food Survey (2013).

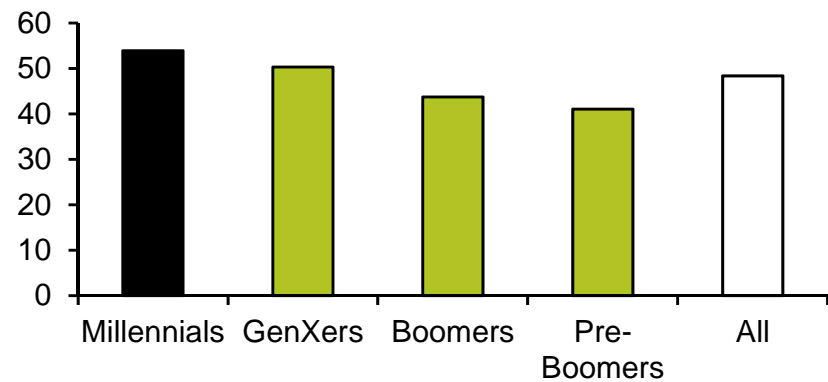
The Rise of Challenger Brands

Millennials are less brand loyal than prior generations ...

"I Like to change brands often for the sake of variety and novelty."



"I will gladly switch brands to use a coupon."

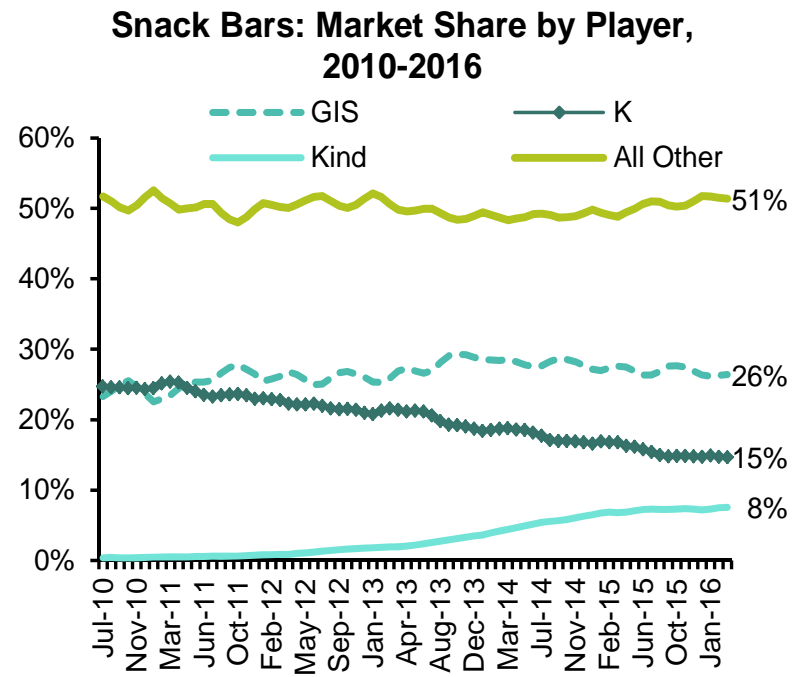
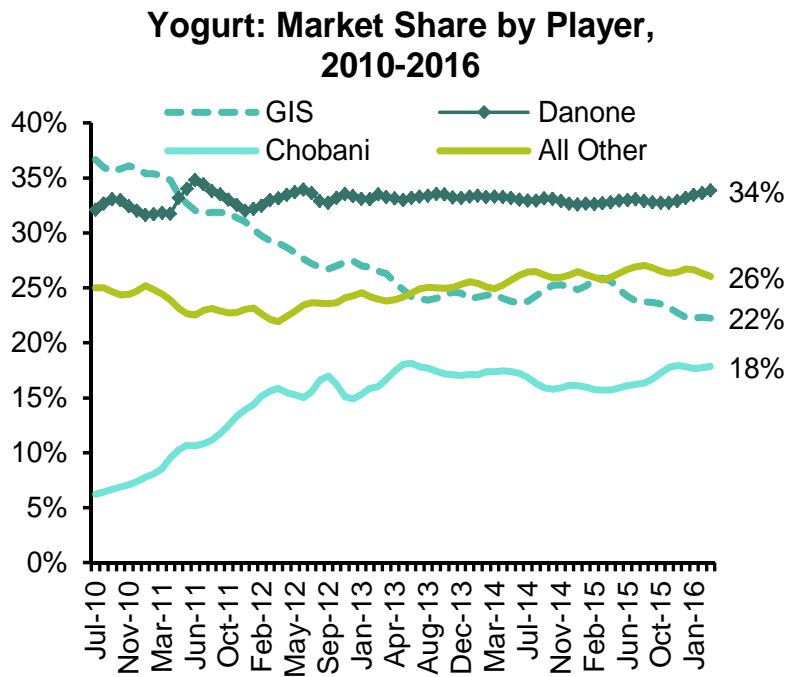


Note: MRI defines Millennials as people born between 1977 and 1994; GenXers as those born between 1965 and 1976; Boomers as those born between 1946 and 1964; and Pre-Boomers as those born before 1946. Data shown denote respondents who checked "Agree mostly" and "Agree somewhat."

Source: MRI and Bernstein analysis.



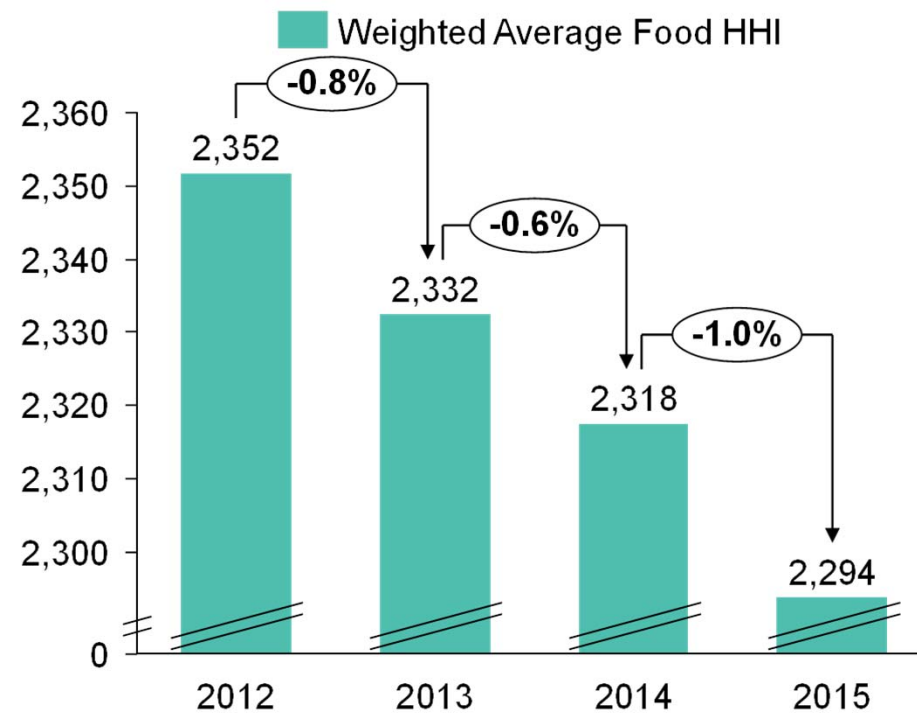
... which has led to rise of new 'challenger' brands ...



Source: Nielsen, Bernstein estimates and analysis



...and the fragmentation of the U.S. Food space

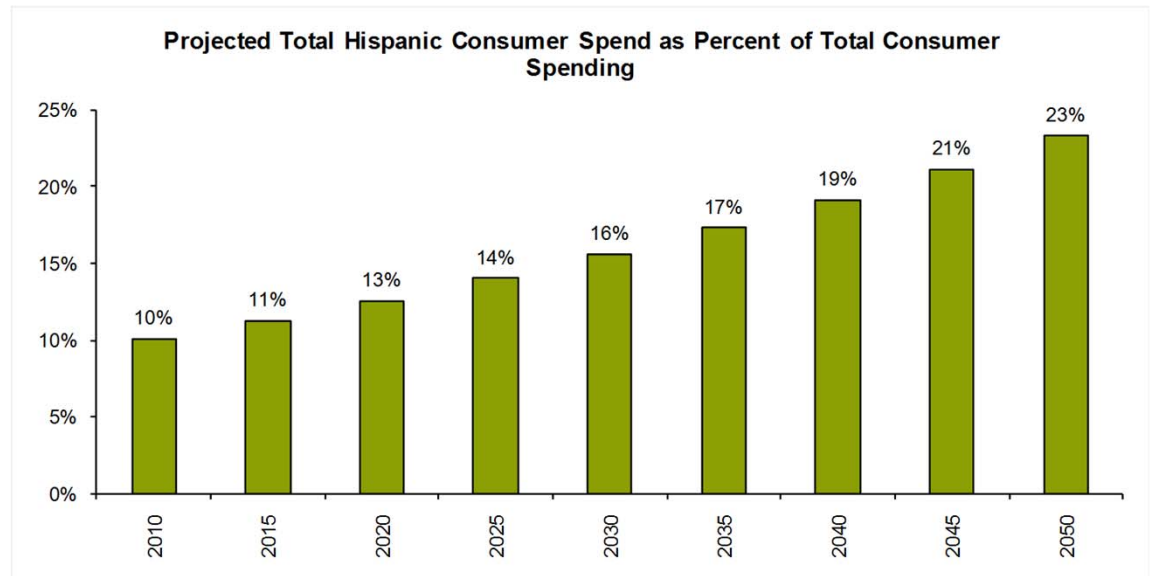


Source: Nielsen, Bernstein estimates and analysis

The Growing Importance of U.S. Hispanic Consumers

U.S. Hispanic Consumer

~16% of the U.S.
Population Today, but
~60% of Real Consumer
Spending Growth Over
Next 40 Years

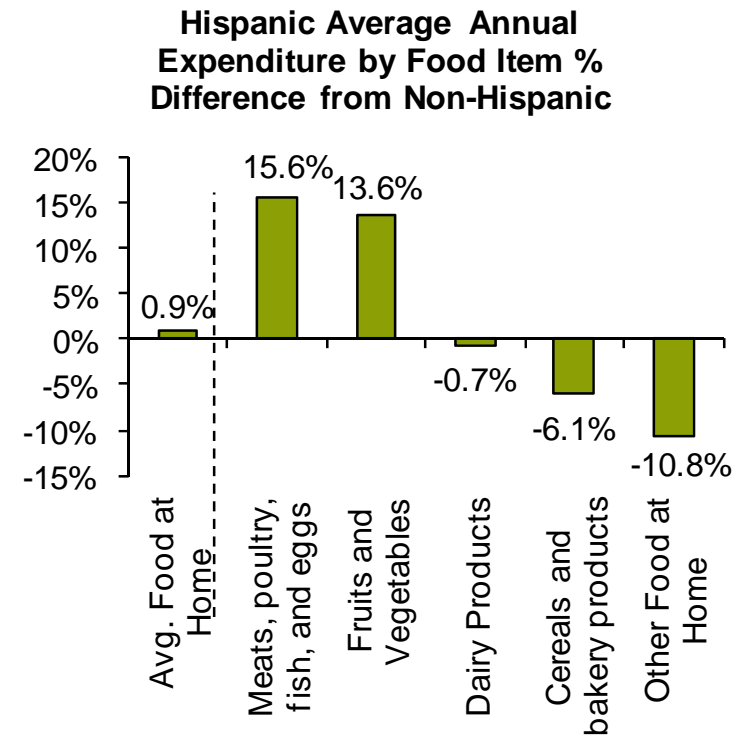


Source: U.S. Census Bureau, U.S. Consumer Expenditure Survey (2009)

U.S. Hispanic Consumer

~U.S. Hispanics spend less on packaged foods than the average U.S. population

- U.S. Hispanics spend about the same amount on food as the population average
- However, U.S. packaged food companies' brands under-index by -17% with this group

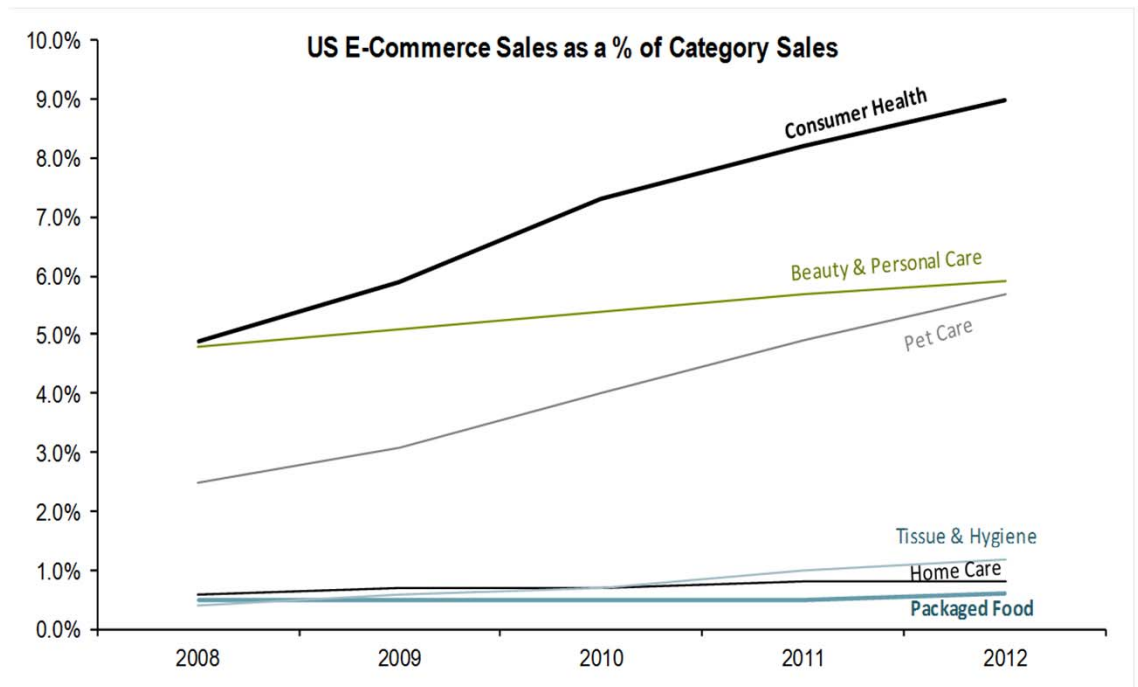


Source: MRI 2009, U.S. Consumer Expenditure Survey, 2009, Bernstein analysis and estimates.

E-Commerce and New Models

E-Commerce

E-Commerce is a Small,
but Growing Area in
Packaged Food



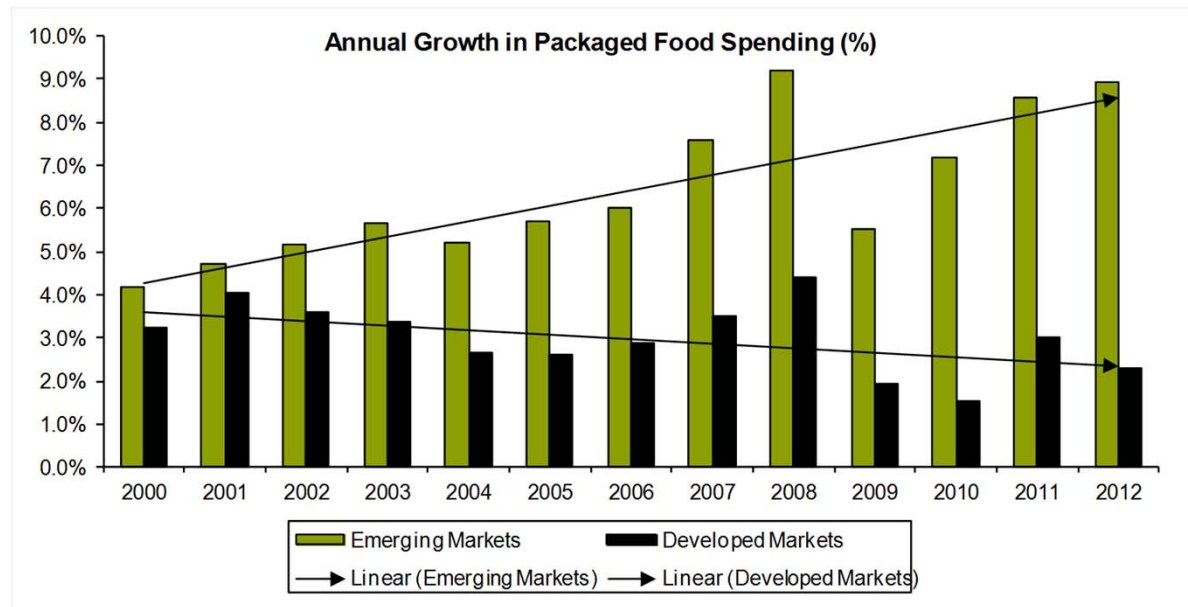
Source: Euromonitor and Bernstein analysis



Emerging Market Opportunities

Emerging Markets

U.S. food companies are seeking growth in emerging markets

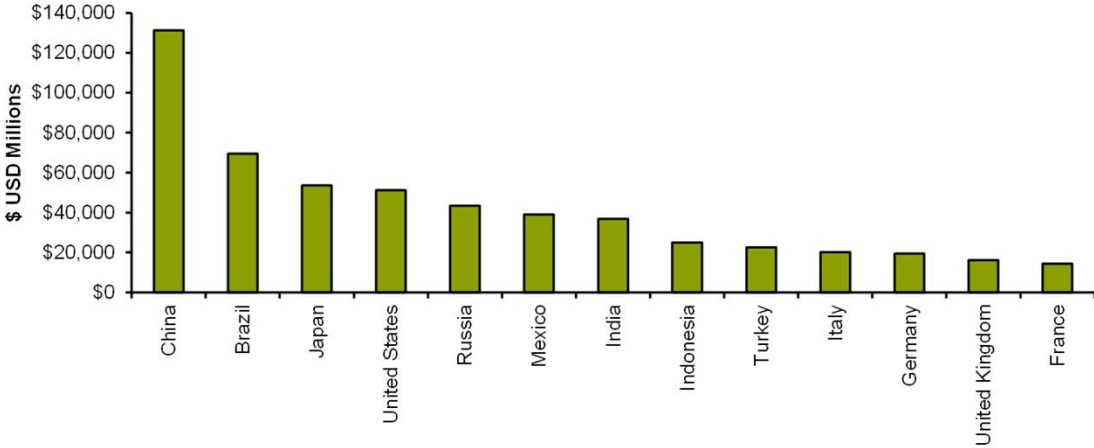


Source: Euromonitor and Bernstein analysis

Emerging Markets

The emerging markets food opportunity by country

Projected Increase In Packaged Food Sales by Country (2010 - 2020E)



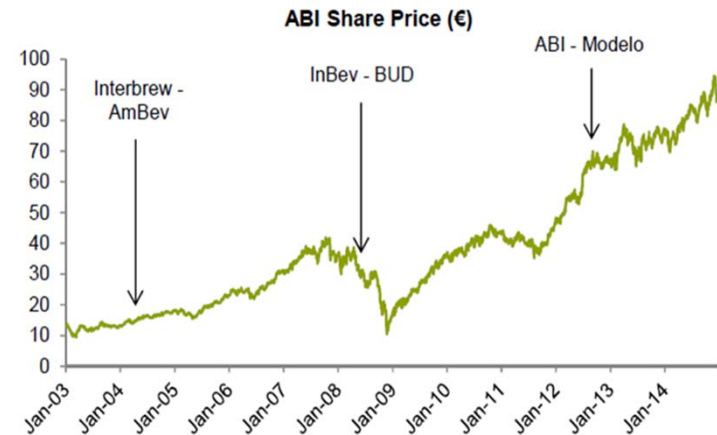
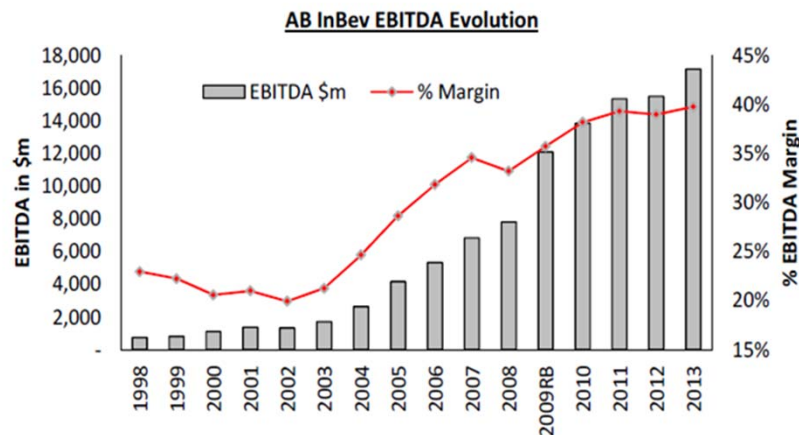
Source: Euromonitor and Bernstein analysis



3G Capital and the Cost-Cutting Mandate

3G Capital and the Cost-Cutting Mandate

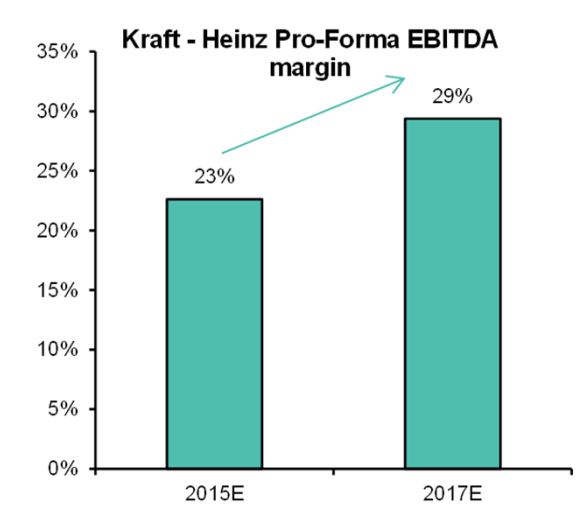
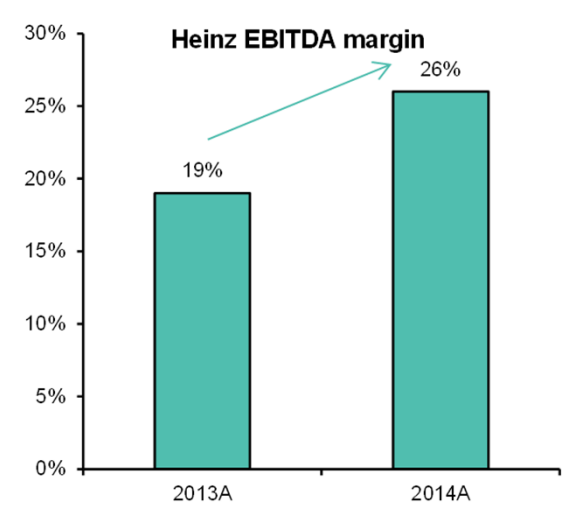
Case Study: At AB InBev, EBITDA margin expanded from ~25% in 2004 to ~40% today; Meanwhile, the share price has risen 7x since 2003



Note: In top chart, ABI financials pre 2008 are reported in Euros and are converted into US dollar using average annual EUR/USD exchange rate.
Source: Corporate Reports, Bloomberg, Bernstein Research.

3G Capital and the Cost-Cutting Mandate

The primary appeal of the Kraft-Heinz deal comes from robust cost savings opportunities estimated at \$1.5 billion



Source: Company reports, Bernstein estimates and analysis

3G Capital and the Cost-Cutting Mandate

Implications...

- **Companies are trying to “3G” themselves (MDLZ, CPB), but culture is a barrier**
- **Mondelez’s potential sale of its Grocery business** to the combined Heinz-Kraft entity?
- **Who could be next as an acquisition target for 3G?** GIS, MDLZ? The fact that 3G did not take Kraft private could mean that it could free up capacity for more deals in the space
- **The Kraft-Heinz deal could likely spur a broader round of consolidation**, especially given that the U.S. Food sector is still vastly fragmented relative to European Food or U.S. Beverages, plus a looming interest rate hike by the Fed could be an additional incentive
 - Health & Wellness names: WWAV, HAIN
 - Snacking names roll-up: DMND, LNCE
 - The WSJ recently reported that the Blackstone Group is talking to investors to create a coalition to buy control of large companies, similar to what 3G/Berkshire Hathaway have done

Source: Bernstein observations.

Please see: <http://www.wsj.com/articles/blackstone-seeks-coalition-partners-to-invest-like-buffett-1424867896> - February 25, 2015.



What Will It Take To Win?

What will it take to win?

Adapting to a more rapidly-changing food market will be key

Key Success Factors

- Transparency in communications with consumers
- Portfolio changes
- Bolt-on acquisitions in emerging markets
- Scaling small brands
- Online consumer relationships
- Communications with investors
- Disciplined resource allocation
- New business models

Examples

- Chipotle before the fall
- Danone 1990s, Campbell Soup
- Heinz
- Kellogg/Kashi before the fall, Hain
- McCormick
- Campbell Soup
- 3G
- Fresh Direct, Blue Apron, Munchery



Disclosure Appendix



Disclosure Appendix - Valuation Methodology & Risks

Our primary valuation mechanism is derived from market multiples, backed up by a 'sanity check' using discounted cash flows from our earnings forecast models. To set our target prices, we begin with the current forward P/E ratio for the S&P based on consensus estimates. We then establish a premium or discount for the U.S. Food sector relative to the S&P based on forward P/E ratios. For individual food companies, we apply a deserved premium/discount relative to the forward P/E for the food sector. Our deserved premium or discount is based on near term and longer term EBIT growth relative to the U.S. packaged food group as a whole. We apply this forward P/E ratio to our forward EPS estimates beginning a year from now. This generates a 12-month target price based on our EPS estimates for the year following our target price date.

Risks to our industry forecast include:

- changes in the degree of competitive activity within any key market
- changes in the nature of our coverage companies' relationships with their key customers and/or suppliers
- fluctuations in foreign exchange rates
- fluctuations in commodity costs
- changes in the companies' ability to deliver on anticipated growth and/or margin improvement opportunities due to internal and/or external causes
- changes in the companies' stances towards M&A
- changes in the government's stance towards regulation of nutritional content
- changes in consumer preferences

Ticker	MDLZ	KHC	GIS	K	CPB	HSY	CAG	MKC	DF	SJM	WWAV	HAIN	SPX
Rating	O	O	M	M	M	M	M	O	O	M	O	O	
Current Price: 05/23/16	\$43.19	\$82.81	\$62.70	\$74.41	\$59.90	\$90.62	\$44.34	\$95.72	\$18.33	\$126.94	\$44.36	\$48.38	\$2,048.04
Market Capitalization (\$B)	\$67	\$101	\$37	\$26	\$19	\$19	\$19	\$12	\$2	\$15	\$8	\$5	
TTM Performance	8%	NA	11%	17%	25%	-3%	14%	22%	-2%	5%	-7%	-22%	-4%
TTM Relative Performance	11%	NA	15%	21%	29%	1%	18%	25%	1%	9%	-4%	-19%	
Bemstein 12-24 Month Fwd EPS Estimate	\$2.23	\$3.98	\$3.15	\$4.03	\$3.31	\$4.75	\$2.57	\$4.45	\$1.77	\$8.04	\$1.76	\$2.49	
Deserved Premium Considerations													
Expected Next 3 Years EBIT Growth	13%	12%	3%	5%	7%	7%	8%	10%	8%	7%	17%	10%	
10-Year Premium/Discount vs. Peers	1%	23%	-4%	-4%	-5%	21%	-13%	9%	9%	-5%	63%	26%	
Deserved Premium to Peers	13%	18%	-6%	-10%	-19%	-6%	-10%	21%	-37%	-15%	42%	5%	
Bem. Expected Company 12-Month Fwd P/E	23.8x	24.8x	19.7x	18.9x	17.0x	19.7x	18.9x	25.4x	13.2x	17.9x	29.8x	22.0x	
12 Month Target Price	\$53	\$99	\$62	\$76	\$56	\$94	\$49	\$113	\$23	\$144	\$53	\$55	

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12-Month Rating History as of 05/23/2016

Ticker Rating Changes

CAG	M (RC)	03/27/09	
CPB	M (RC)	03/15/11	
DF	O (RC)	02/10/16	M (RC) 06/12/13
GIS	M (IC)	08/02/06	
HAIN	O (IC)	02/09/15	
HSY	M (RC)	06/18/10	
K	M (RC)	11/15/11	
KHC	O (RC)	07/29/15	M (IC) 11/16/12
MDLZ	O (IC)	08/02/06	
MKC	O (RC)	06/23/15	M (RC) 03/12/15
SJM	M (RC)	05/05/15	
WWAV	O (RC)	09/11/15	M (IC) 12/03/14

Rating Guide: O - Outperform, M - Market-Perform, U - Underperform, N - Not Rated

Rating Actions: IC - Initiated Coverage, DC - Dropped Coverage, RC - Rating Change

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