IT'S ALL ABOUT ZERO-BASED BUDGETING

Is everyone on board with Zero-Based Budgeting (ZBB) in our newer, large **Money Spinner,** Mondelez International? There certainly has been a lot of activity:

> *Hedge funds that have recently added to their stakes in our* ***Income Money Spinner****: Ferguson Wellman Capital Management Inc. boosted its stake in Mondelez International by 6,669.6% in the second quarter. Ferguson Wellman Capital Management Inc. now owns 508,399 shares of the company's stock worth $23,137,000 after buying an additional 500,889 shares during the last quarter. Natixis boosted its stake in Mondelez International by 42.8% in the first quarter. Natixis now owns 1,405,515 shares of the company's stock worth $56,390,000 after buying an additional 420,987 shares during the last quarter. Stoneridge Investment Partners LLC boosted its stake in Mondelez International by 44.5% in the second quarter. Stoneridge Investment Partners LLC now owns 269,963 shares of the company's stock worth $12,286,000 after buying an additional 83,154 shares during the last quarter. Boston Private Wealth LLC boosted its stake in Mondelez International by 0.6% in the second quarter. Boston Private Wealth LLC now owns 459,937 shares of the company's stock worth $20,931,000 after buying an additional 2,627 shares during the last quarter. Finally, Clarkston Capital Partners LLC boosted its stake in Mondelez International by 7.4% in the second quarter. Clarkston Capital Partners LLC now owns 415,280 shares of the company's stock worth $18,899,000 after buying an additional 28,444 shares during the last quarter. 75.99% of the stock is owned by institutional investors.*

We already knew Nelson Peltz was heavily involved with the company, as well as one of our other billion-dollar friends in the money management industry.

The larger question now is why everyone else is also starting to take large positions. On the surface, Mondelez, the maker of **billion-dollar brands**, appears fully valued. Of course, even if this were true, the company's intrinsic value is nearly certain to grow over time – which will still make investors money.

But as value-buyers, we want more than a fair price. We want a margin of safety, so we have the proverbial potential for two returns: the discount to intrinsic value converging over time, on top of the long-term increase in intrinsic value:

So apparently more than a few of us believe the largest, non-family controlled, publicly-traded snack company in the world is undervalued enough to warrant a large purchase. Why?

Enter Zero-Based Budgeting (ZBB). Ever heard of it? It's simple; it's about redefining a culture of waste within a company and accounting for every penny of corporate spending within the operating structure.

3G Capital is the most notorious company in the universe for holding management feet to a low-cost rationalization business structure. Under Jorge Paulo Lemann, 3G Capital has turned companies such and Kraft Heinz and AB InBev into relentless cost-cutting, margin-enhancing powerhouses —providing absolute windfalls for owners in the companies.

Mondelez International has been getting pushed fairly hard by Nelson Peltz and Company to increase their margins under Irene Rosenfeld, since Mondelez has had industry-low profit margins due to inefficient operating costs.

Rosenfeld has been doing a decent job since 2015E — operating margins have increased roughly 300 basis points, but still lag behind Kraft Heinz, under 3G stewardship, by embarrassing amounts. And there is no reason why Mondelez cannot run operating margins well north of 18%.

The problem for a leader like Rosenfeld, who has been at the helm for a long period of time, is it's hard for her to switch the culture around from large corporate suites, jetliners, and wasteful bloat to one in which every penny counts. Imagine the backlash from personel when you tell them they've got to hunker down and cut costs after years of unchecked waste. It's incredibly hard to do.

And that's when new management can make a meaningful difference. It's much easier to be the new operators within a company telling mid-level vice presidents that they no longer get first-class tickets, c-suites, and other benefits and that they need to pare down costs throughout their departments – or else. After years of working with incumbent management, and having developed long-term relationships, FMT Advisory believes it's just too hard to completely flip that switch for CEO Irene Rosenfeld.

And if she can't fully flip the ZBB switch, we expect someone else will if she is let-go or pushed out.

But there are enormous opportunities at Mondelez that can be more far more operationally efficient and provide meaningful shareholder returns beyond eliminating just c-suites. We've done corporate channel checks and have spoken ad nausea to a food holding we know very intimately.

Mondelez could see profits soar if they do away with direct store delivery, consolidate the Northfield and Deerfield headquarters (again, very hard to do if you're Irene Rosenfeld), get rid of all the unnecessary overlap in the U.K. of Heinz and Cadbury, and sell off non-core assets (coffee) that could put the fair value (which is growing) of Mondelez at $60 per-share or more, roughly 50% higher than today's price!

With the right partners investing alongside us in Mondelez International, we're confident that this is a low-risk, high-reward money spinner holding in our accounts.

While we wouldn't invest for this reason alone, there are also enormous rumblings that 3G Capital may be readying itself for a huge takeover offer of Mondelez. 3G has been raising billions in capital for their next foray now that AB InBev and Kraft-Heinz are about as efficient as can be. And the time might be getting close for Jorge Lemann and 3G to show Irene just what ZBB is really all about.

While our research tells us that Mondelez would indeed be a tasty treat for 3G Capital within the next year or so, the levers that can and will likely be pulled with the other stakeholders involved means there's more than just one way to open this bag of treats for all stakeholders. And we'll be there, should it happen.