

Simple & Cheap Memo

TO: TO WHOM IT MAY CONCERN.
FROM: WIN2003-SMALL
SUBJECT: KRAFT FOOD INC. SPIN OFF
DATE: SEPTEMBER 25, 2012

Introduction.

Kraft Food INC. operates one of the largest food and beverage companies in the world. They manufacture and market food and beverage products, including "TV dinners", beverages and coffee, cheese and other grocery products, primarily in the United States and Canada.

On, October 1, 2012, Kraft Foods Inc. will split off its North American segments. The North American grocery business will then trade under the name "Kraft Foods Group Inc." and will have a new ticker symbol of "KRFT." Kraft Foods Inc. will then change its name to Mondelez International. The old "KFT" ticker will be retired and replaced with "MDLZ.". The company will distribute one share of the new KRFT for every three shares of KFT. Fractional shares will be sold and the cash will be sent to you.

"Why are they separating?"

Management believes:

"The Spin-Off will allow each company to focus on its distinct growth profile, product categories, distribution systems and strategic priorities, with customized cultures, organizational structures, operating models and financial targets that best fit its own business, markets and unique opportunities."

"The Spin-Off will allow each company to allocate resources and deploy capital in a manner consistent with its distinct operational focus and strategic priorities in order to optimize total returns to shareholders."

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"The Spin-Off will allow investors to value Kraft ParentCo and Kraft Foods Group based on their particular operational and financial characteristics and thus invest accordingly."

In layman's terms the Mondelez branch will likely grow at a faster rate than the North American branch. The Kraft Food group (from here on referred to as KRFT.) will retain the Kraft name,

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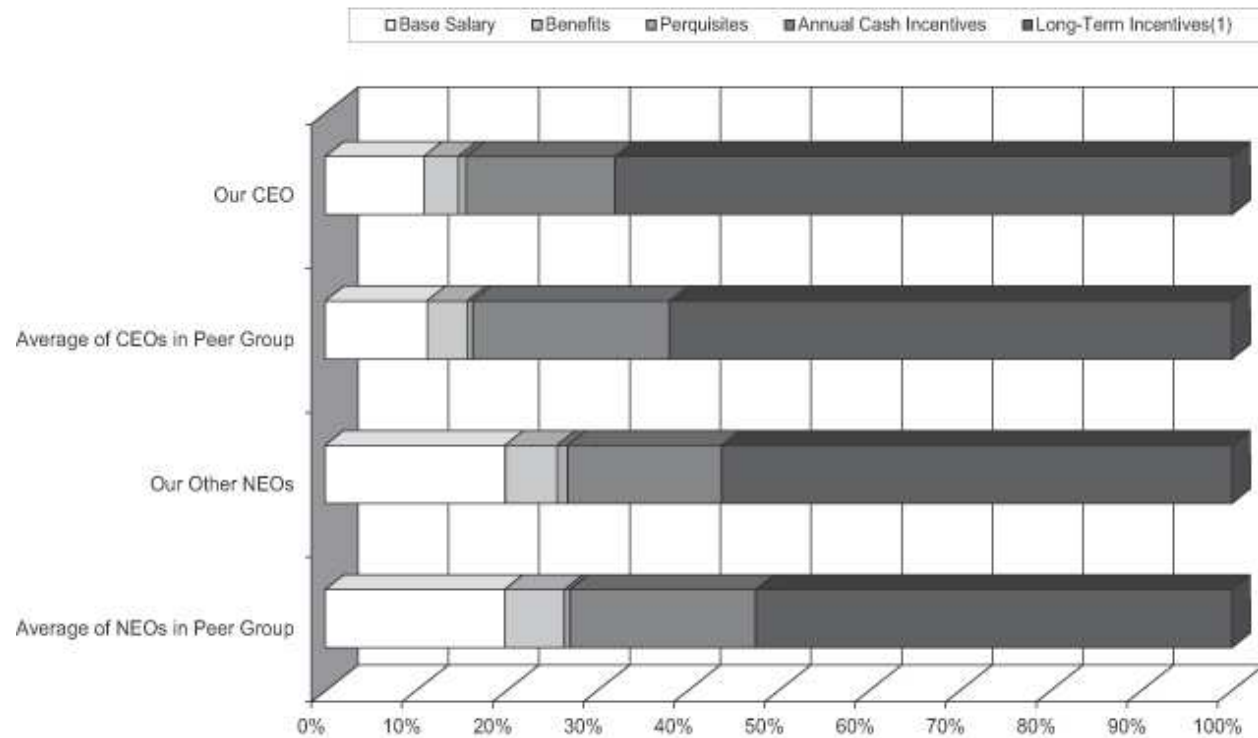
which I believe will help keep the revenues stable. Keep in mind that Groceries are bought in weekly intervals, and snacks and candy, are bought at irregular and intermittent intervals. They are two different companies with two different business models, going in different directions.

“Will insiders want the stock?”

Simply put the KRFT, isn't going to be a “small” company, only smaller compared to Mondelez International. (from hence, MDLZ.) The directors are not being attached to a sinking ship; they are getting the keys to a new yacht to which they will be able to unleash all of their entrepreneurial energy.

Another point, the new CEO W. Anthony Vernon, will have a base salary that is relatively small compared to Kraft peers, which include the likes of Pepsi, and Cola-Cola.

Design Mix of Compensation and Elements



In our case, the more options the better, As far as the directions and executive officers go:

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Name	Beneficially Owned Shares ⁽¹⁾⁽²⁾	Deferred Stock/ Additional Underlying Units ⁽³⁾	Total Shares/ Interests Held
Named Executive Officers^{(5):}			
Irene B. Rosenfeld	911,772 ⁽⁶⁾	—	911,772
David A. Brearton	113,758	2,291	116,049
Timothy R. McLevish	194,188	—	194,188
Sanjay Khosla	130,567	—	130,567
Mary Beth West	49,461	—	49,461
All directors and executive officers as a group (23 persons) ⁽⁷⁾	638,760	115,705	754,465

Name	Beneficially Owned Shares ⁽¹⁾⁽²⁾	Deferred Stock/ Additional Underlying Units ⁽³⁾	Total Shares/ Interests Held
Directors:			
John T. Cahill	—	89,710	89,710
W. Anthony Vernon	90,182	—	90,182
Abelardo E. Bru	—	—	—
L. Kevin Cox	133	—	133
Myra M. Hart	4,175	3,808	7,983
Peter B. Henry	—	2,327	2,327
Jeanne P. Jackson	—	—	—
Terry J. Lundgren	—	1,087	1,087
Mackey J. McDonald	1,048	3,808	4,856
John C. Pope	10,093 ⁽⁴⁾	2,721	12,814
E. Follin Smith	—	—	—

The signs point toward the “insiders” and the shareholders values being aligned together.

“Will Institutions want the company?”

This is the part that gets tricky. A lot of the time after spin offs, institutions don’t want or can’t hold on to the spin off. In the case of KRFT, and MDLZ they are both going to be pretty large companies (18.b and 32.b) so the big institutions may be selling off their stack like we would like in this case. However, as of the 24th, of September KFT, is no longer in the DOW average, so indexes that track the DOW are going to be forced to sell of their KFT shares. I want to say that institutions will sell the spin off, but Signs are pointing in the other direction.

Summary:

As a spin off KRFT, is looking rather plain, a big non–distressed company that grosses a little bit over 18 billion a year. Because of the size of the spin off and its parent, there are a lot of eyes on this situation. As a spin off, this company may be on the pass list just because it may

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be fairly valued right out of the gate. However, while both companies aren't exactly what I look for in a spin off (I like less coverage, but doesn't every value investor?) they both have the makings for fine Buffet style buy and hold investments. Both have very diverse lines of products, both will be paying very good dividends, and both are fairly easy to understand. If (and that's a big if) a big sell off happens by the institutions you may be looking at a pretty simple and cheap stock.

References:

The 10 form and its companions:

<http://www.sec.gov/Archives/edgar/data/1545158/000119312512357703/0001193125-12-357703-index.htm>

A great write up of this spin off:

<http://seekingalpha.com/article/873411-kraft-spin-off-101>

To find all the KFT news:

<http://www.stockspinoffs.com/tag/kft/>

If you want to learn more on special situation investing:

http://www.amazon.com/You-Can-Stock-Market-Genius/dp/0684840073/ref=sr_1_1?ie=UTF8&qid=1348639474&sr=8-1&keywords=so+you+want+to+a+stock+market+genius

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