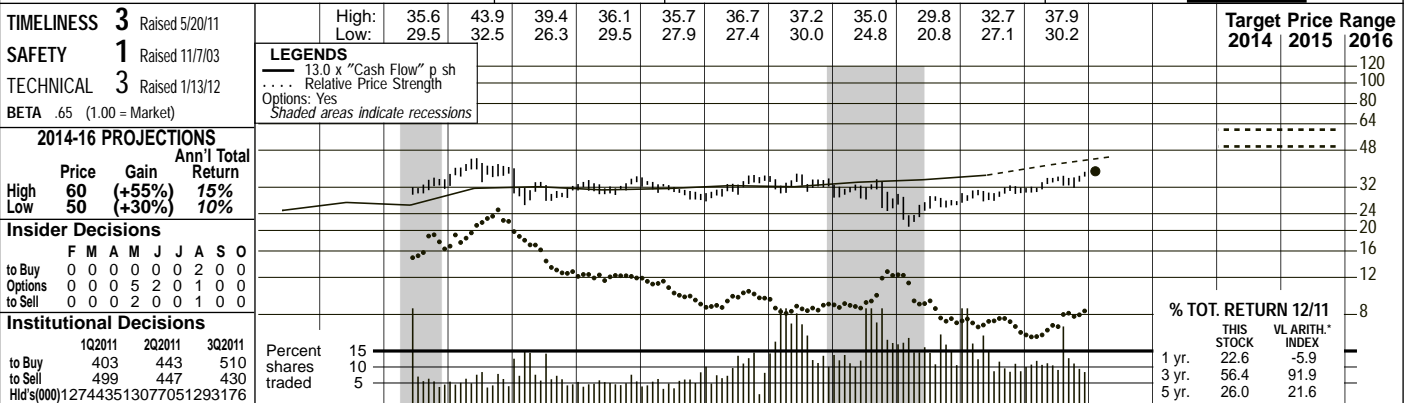


# KRAFT FOODS INC. NYSE-KFT

RECENT PRICE **38.13** P/E RATIO **15.6** (Trailing: 17.5 Median: 17.0) RELATIVE P/E RATIO **1.05** DIV'D YLD **3.0%** VALUE LINE



<p>Kraft Foods Inc. was formed in 1989 when Philip Morris (now Altria Group) merged General Foods Corporation (which it acquired in 1985) with Kraft Inc. (acquired in 1988). In December of 2000, the company acquired Nabisco Holding Corporation. The company completed its initial public offering of 280 million shares at \$31 each on June 12, 2001. Net proceeds totaled roughly \$8.7 billion. Credit Suisse First Boston and Salomon Smith Barney were the lead underwriters. Philip Morris retained an 84% stake in Kraft, which it has since spun off.</p> <p><b>CAPITAL STRUCTURE as of 9/30/11</b>            Total Debt \$2887.8 mill. Due in 5 Yrs \$1500 mill.            LT Debt \$2313.9 mill. LT Interest \$1200 mill.            (LT interest earned: 3.7x) (39% of Cap'l)</p> <p><b>Pension Assets-12/10</b> \$13253 mill. <b>Oblig.</b> \$15598 mill.  <b>Pfd Stock</b> None  <b>Common Stock</b> 1,766.7 mill. shs. as of 10/31/11</p> <p><b>MARKET CAP: \$67.4 billion (Large Cap)</b></p> <p><b>CURRENT POSITION (SMILL.)</b></p> <table border="1"> <tr> <td></td> <td>2009</td> <td>2010</td> <td>9/30/11</td> </tr> <tr> <td>Cash Assets</td> <td>2101</td> <td>2481</td> <td>1976</td> </tr> <tr> <td>Receivables</td> <td>5197</td> <td>6539</td> <td>6835</td> </tr> <tr> <td>Inventory (LIFO)</td> <td>3775</td> <td>5310</td> <td>6399</td> </tr> <tr> <td>Other</td> <td>1381</td> <td>1891</td> <td>2119</td> </tr> <tr> <td>Current Assets</td> <td>12454</td> <td>16221</td> <td>17329</td> </tr> <tr> <td>Accts Payable</td> <td>3766</td> <td>5409</td> <td>5293</td> </tr> <tr> <td>Debt Due</td> <td>966</td> <td>1865</td> <td>5739</td> </tr> <tr> <td>Other</td> <td>6759</td> <td>8386</td> <td>9328</td> </tr> <tr> <td>Current Liab.</td> <td>11491</td> <td>15660</td> <td>20360</td> </tr> </table> <p><b>ANNUAL RATES</b> Past 10 Yrs. Past 5 Yrs. Est'd '08-'10 of change (per sh) to '14-'16</p> <table border="1"> <tr> <td>Sales</td> <td>4.5%</td> <td>8.0%</td> <td>4.0%</td> </tr> <tr> <td>"Cash Flow"</td> <td>3.5%</td> <td>2.0%</td> <td>7.5%</td> </tr> <tr> <td>Earnings</td> <td>5.0%</td> <td>.5%</td> <td>8.5%</td> </tr> <tr> <td>Dividends</td> <td>--</td> <td>9.0%</td> <td>6.0%</td> </tr> <tr> <td>Book Value</td> <td>6.5%</td> <td>.5%</td> <td>10.5%</td> </tr> </table>		2009	2010	9/30/11	Cash Assets	2101	2481	1976	Receivables	5197	6539	6835	Inventory (LIFO)	3775	5310	6399	Other	1381	1891	2119	Current Assets	12454	16221	17329	Accts Payable	3766	5409	5293	Debt Due	966	1865	5739	Other	6759	8386	9328	Current Liab.	11491	15660	20360	Sales	4.5%	8.0%	4.0%	"Cash Flow"	3.5%	2.0%	7.5%	Earnings	5.0%	.5%	8.5%	Dividends	--	9.0%	6.0%	Book Value	6.5%	.5%	10.5%	<table border="1"> <tr> <th>Year</th> <th>2001</th> <th>2002</th> <th>2003</th> <th>2004</th> <th>2005</th> <th>2006</th> <th>2007</th> <th>2008</th> <th>2009</th> <th>2010</th> 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VALUE LINE PUB. LLC 14-16</b></p> <p>Sales per sh <b>35.75</b>            "Cash Flow" per sh <b>4.20</b>            Earnings per sh <sup>A</sup> <b>3.25</b>            Div'ds Decl'd per sh <sup>B</sup> <b>1.60</b>            Cap'l Spending per sh <b>1.25</b>            Book Value per sh <b>32.40</b>            Common Shs Outst'g <sup>C</sup> <b>1790.0</b>            Avg Ann'l P/E Ratio <b>17.0</b>            Relative P/E Ratio <b>1.15</b>            Avg Ann'l Div'd Yield <b>2.9%</b></p> <p>Sales (\$mill) <b>64000</b>            Operating Margin <b>18.5%</b>            Depreciation (\$mill) <b>1700</b>            Net Profit (\$mill) <b>5820</b>            Income Tax Rate <b>30.0%</b>            Net Profit Margin <b>9.1%</b>            Working Cap'l (\$mill) <b>1000</b>            Long-Term Debt (\$mill) <b>25000</b>            Shr. Equity (\$mill) <b>58000</b>            Return on Total Cap'l <b>8.0%</b>            Return on Shr. Equity <b>10.0%</b>            Retained to Com Eq <b>5.0%</b>            All Div'ds to Net Prof <b>49%</b></p>
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**BUSINESS:** Kraft Foods Inc. is the largest branded food and beverage company headquartered in the U.S. and second largest worldwide. The company markets many of the world's leading food brands, including *Kraft* cheese, *Cadbury* candy, *Maxwell House* and *Jacobs* coffee, *Nabisco* cookies and crackers, *Philadelphia* cream cheese, and *Oscar Mayer* meats. Its products are currently sold in roughly 170 countries around the globe. North American sales accounted for 49% of '10 total; International, 51%. Acq. Nabisco, 12/00; Cadbury, 2/10. Has about 127,000 employees. Officers & Directors own less than 1% of stock (3/11 Proxy). Chairman & CEO: Irene B. Rosenfeld. Address: Three Lakes Drive, Northfield, IL 60093. Telephone: 847-646-2000. Internet: www.kraft.com.

**Momentum is building at Kraft.** Commodity cost pressures and a far-from-ideal consumer spending backdrop in the U.S. and Europe remain challenges for the company and its industry peers. But Kraft continues to post solid results. In fact, the company's third-quarter organic sales growth of 8.4% easily surpassed Wall Street's expectation. And...

**We look for the top line to remain strong through what promises to be a choppy 2012.** Kraft's resiliency is attributable, we think, to stepped-up investments in product innovation and advertising that have enabled the food giant to raise prices without losing critical share in its more mature geographic markets. Additionally, the company maintains a large international footprint, and its recent acquisitions of French biscuit maker Lu (2007) and British confectioner Cadbury (2010) are helping it to expand distribution in booming emerging countries, including the BRIC nations (i.e., Brazil, Russia, India, and China). All in all, we believe that organic sales will rise at least 5% in the year ahead, which, coupled with moderate margin improvement, will proba-

bly support another double-digit share-earnings advance, to the \$2.60 level.

**Cost-control efforts are a priority.** Indeed, Kraft intends to further pare its overhead in 2012, as it continues to right-size its North American operations, offset significant commodity inflation, and grapple with tough conditions on the other side of the Atlantic. It also expects to realize \$200 million in incremental cost savings from the Cadbury deal, mostly related to the consolidation of distribution networks.

**Kraft is moving ahead with plans, designed to unlock shareholder value and improve overall execution, to split into two separate companies.** The first company will consist of the global snacks business, while the second will encompass the slower growing North American grocery division. The split, to take the form of a tax-free spinoff, is expected to be completed by year's end.

**This issue is attractive on a risk-adjusted basis.** Investors are encouraged to get in before the split occurs, after which time Kraft's businesses will likely be selling at higher earnings multiples.

*Justin Hellman*  
 January 27, 2012

(A) Diluted earnings. Excludes nonrecurring gain/(losses): '03, 1c; '04, (32c); '05, (16c); '06, (9c). Next earnings report is due in early February.	(B) Dividends are typically paid in early January, April, July, and October.	(C) In millions.	(D) Doesn't sum due to rounding.
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Company's Financial Strength	A+
Stock's Price Stability	100
Price Growth Persistence	30
Earnings Predictability	100