



# **Financial Review**

**Jim Dollive**

**Chief Financial Officer**

*July 19, 2004*

# Financial Highlights

- **Realistic long-term targets**
  - Supported by business profile
  - Sustainable earnings model

# Financial Highlights

- **Realistic long-term targets**
- **Strong cash flow generation**
  - Working capital improvements
  - Capital spending efficiency

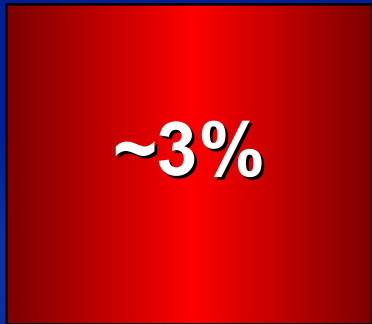
# Financial Highlights

- **Realistic long-term targets**
- **Strong cash flow generation**
- **Efficient cash flow use**
  - Drive growth
  - Return cash to shareholders
  - Reduce debt

# Realistic Targets

## Long-Term Growth Rates

Revenue



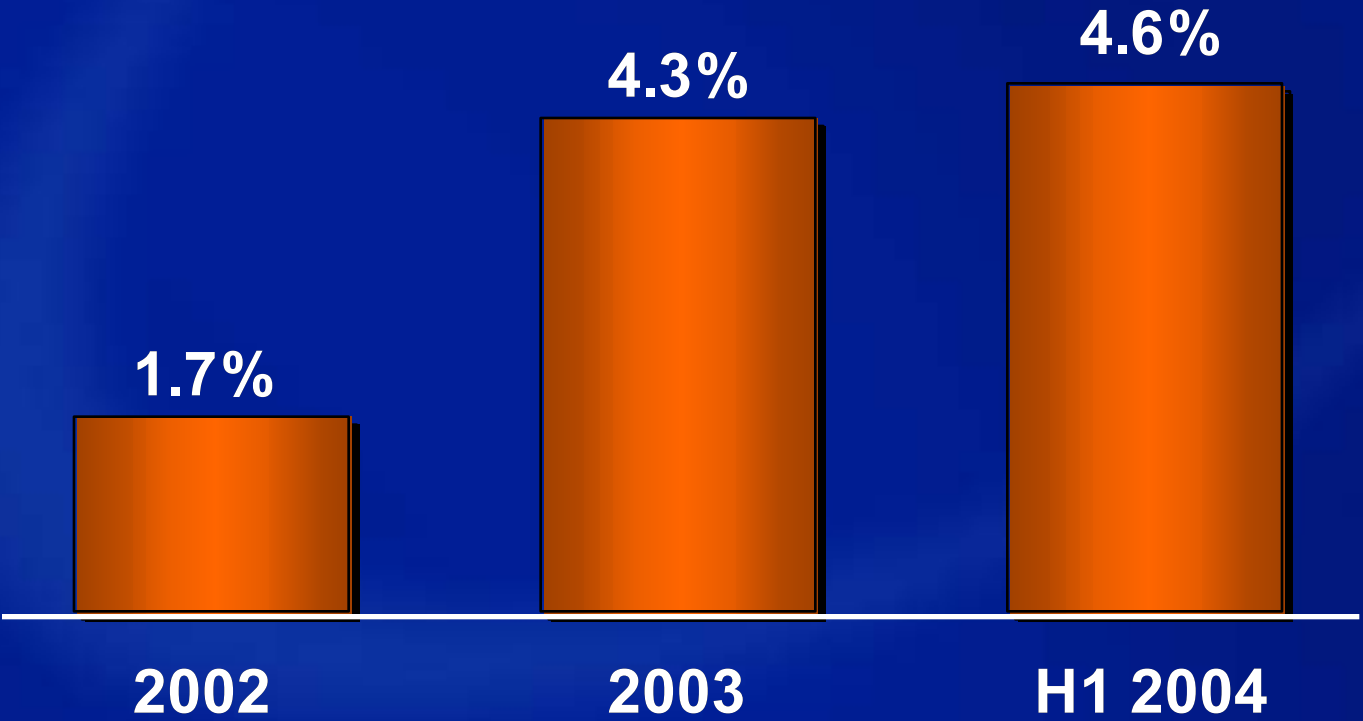
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**Volume 2-3%**

*Constant currency;  
Includes tack-ons;  
Excludes divestitures*



# Revenue Growth



# Revenue Drivers

	<u>2002</u>	<u>2003</u>	<u>H1 2004</u>
<b>Reported Revenue</b>	<b>1.7%</b>	<b>4.3%</b>	<b>4.6%</b>
– Divestitures	0.1 pp	0.4 pp	0.4 pp
– Held for Sale	(0.9)pp	-	-
– Currency	1.0 pp	(2.5)pp	(3.6)pp

**Ongoing Revenue,  
Constant Currency**

**1.9%**

**2.2%**

**1.4%**

**Guidance  
Measure**



# Revenue Drivers

	<u>2002</u>	<u>2003</u>	<u>H1 2004</u>
<b>Reported Revenue</b>	<b>1.7%</b>	<b>4.3%</b>	<b>4.6%</b>
– Divestitures	0.1 pp	0.4 pp	0.4 pp
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– Currency	1.0 pp	(2.5)pp	(3.6)pp
<b>Ongoing Revenue, Constant Currency</b>	<b>1.9%</b>	<b>2.2%</b>	<b>1.4%</b>
– Acquisitions	0.7 pp	0.2 pp	0.4 pp
– Net Pricing	(0.3)pp	1.6 pp	0.3 pp
– Vol/Mix ex Acq.	1.5 pp	0.4 pp	0.7 pp

**Guidance  
Measure**



# Revenue Drivers

	<u>2002</u>	<u>2003</u>	<u>H1 2004</u>	<u>Long-Term Target</u>
<b>Reported Revenue</b>	1.7%	4.3%	4.6%	
– Divestitures	0.1 pp	0.4 pp	0.4 pp	
– Held for Sale	(0.9)pp	-	-	
– Currency	1.0 pp	(2.5)pp	(3.6)pp	
<b>Ongoing Revenue, Constant Currency</b>	1.9%	2.2%	1.4%	~3.0%
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# Long-Term Revenue Target

## By Sector

<u>WW Market Growth* '00-'03 CAGR</u>		<u>% Kraft Revenue</u>	<u>Revenue Outlook</u>
2-3%	Snacks	30%	2-4%
3-4%	Beverages	20%	3-5%
3-4%	Cheese/Dairy	18%	2-4%
1-2%	Grocery	17%	1-2%
2-3%	Convenient Meals	15%	1-3%
	<b>Total</b>	<b>100%</b>	<b>~3%</b>

\* Source: Global volume in lbs; Euromonitor, AC Nielsen, Canadean



# Long-Term Revenue Target

## By Geography

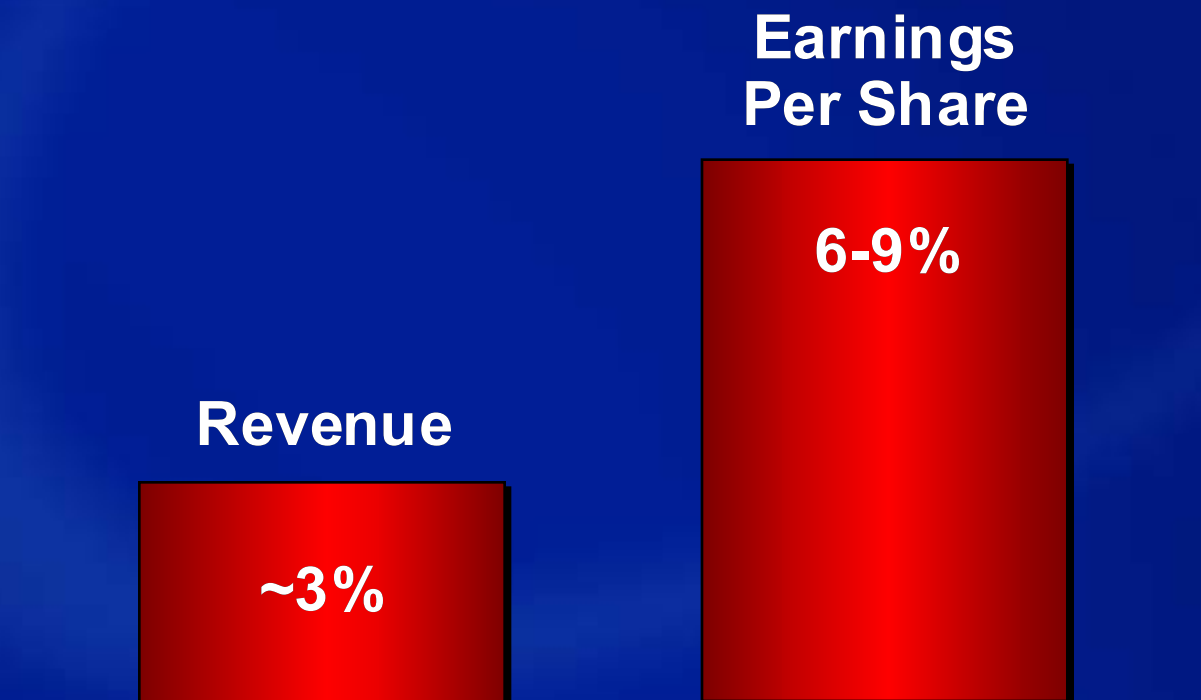
	<u>% Kraft Revenue</u>	<u>Revenue Outlook</u>
<u>North America</u>		
U.S. Alt. Channels*	~17%	7-11%
Traditional	~52%	0-2%
<u>International</u>		
Developed	~20%	0-2%
Developing	~11%	4-8%
<b>Total</b>	<b>100%</b>	<b>~3%</b>

\* Includes Club, Mass Merch, Supercenters, Drug & Convenience outlets



# Financial Goals

## Long-Term Growth Rates



**Volume 2-3%**

*Constant currency;  
Includes tack-ons;  
Excludes divestitures*



# Earnings Profile

	2003		
	<u>Margin</u>	<u>Drivers</u>	<u>Outlook</u>
Revenue	100%	<ul style="list-style-type: none"><li>▪ Volume / Mix</li><li>▪ Price Gap Management</li></ul>	~3%

# Earnings Profile

	<b>2003</b>		
	<b><u>Margin</u></b>	<b><u>Drivers</u></b>	<b><u>Outlook</u></b>
<b>Revenue</b>	<b>100%</b>	<ul style="list-style-type: none"><li>■ Volume / Mix</li><li>■ Price Gap Management</li></ul>	<b>~3%</b>
<b>Variable Costs</b>	<b>~52%</b>	<ul style="list-style-type: none"><li>■ Volume / Mix</li><li>■ Inflation</li><li>■ Productivity</li></ul>	<b>1.5%-2.0%</b>

# Earnings Profile

	<b>2003</b>	<b>Drivers</b>	<b>Outlook</b>
	<b><u>Margin</u></b>		
<b>Revenue</b>	<b>100%</b>	<ul style="list-style-type: none"> <li>▪ Volume / Mix</li> <li>▪ Price Gap Management</li> </ul>	<b>~3%</b>
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<b>Non-Variable Costs</b>	<b>~28%</b>	<ul style="list-style-type: none"> <li>▪ A&amp;C / Investments</li> <li>▪ Inflation / Benefits</li> <li>▪ Restructuring / Productivity</li> </ul>	<b>3%-4%</b>

# Earnings Profile

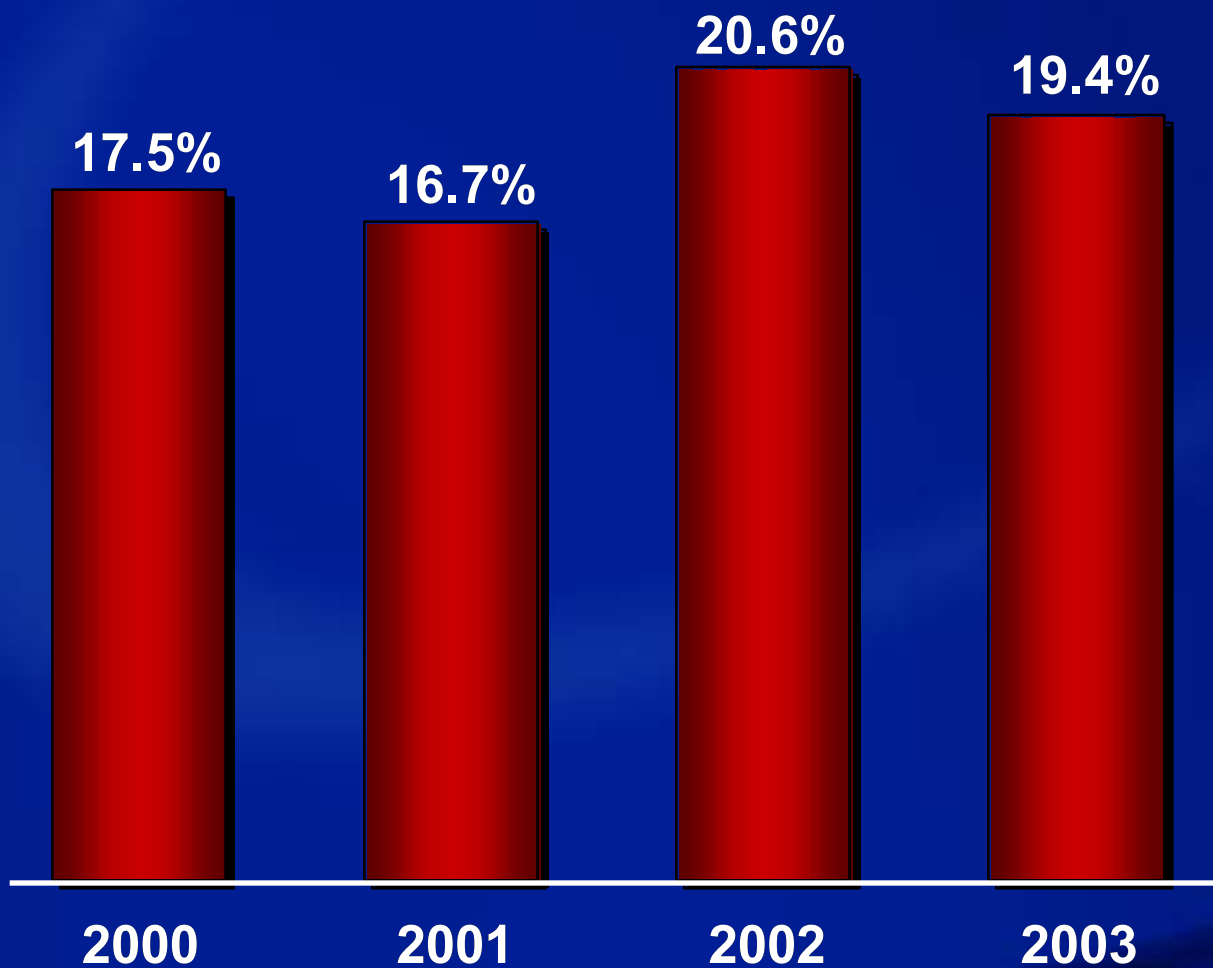
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<hr/>			
<b>OCI</b>	<b>~20%</b>		<b>4%-7%</b>

# Earnings Profile

		EPS Impact	
OCI	4%-7%	Top-line contribution	4-6 pp
		Productivity / Costs	1-2 pp
		Cash flow leverage	~1 pp
		<hr/>	
		Long-term EPS target	6%-9%

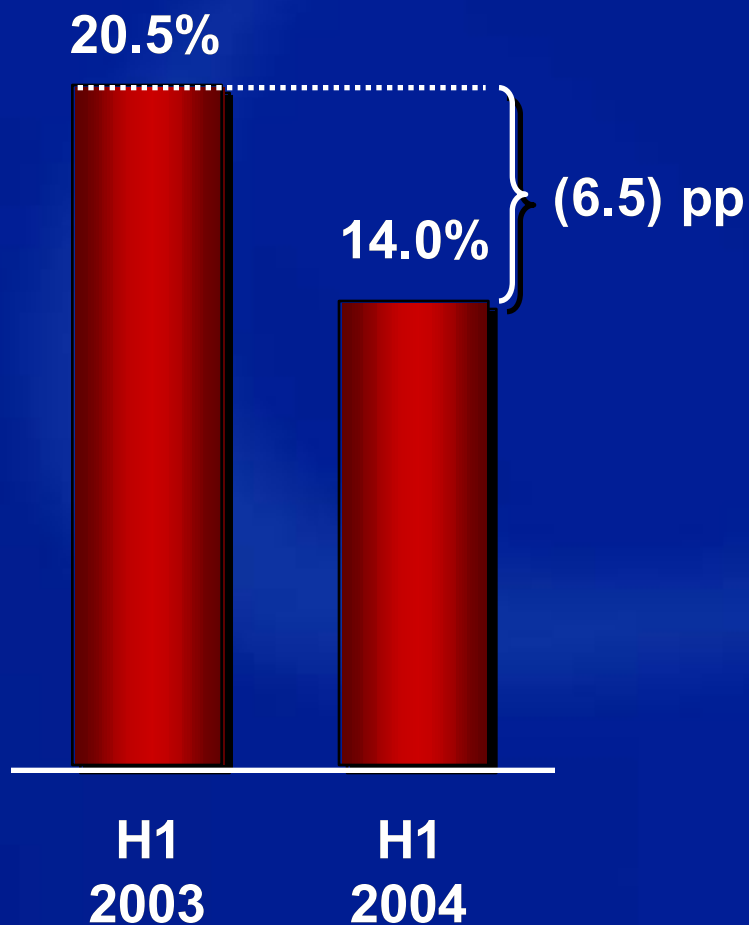
# Operating Margins

Operating Income/Net Revenue



# Operating Margins

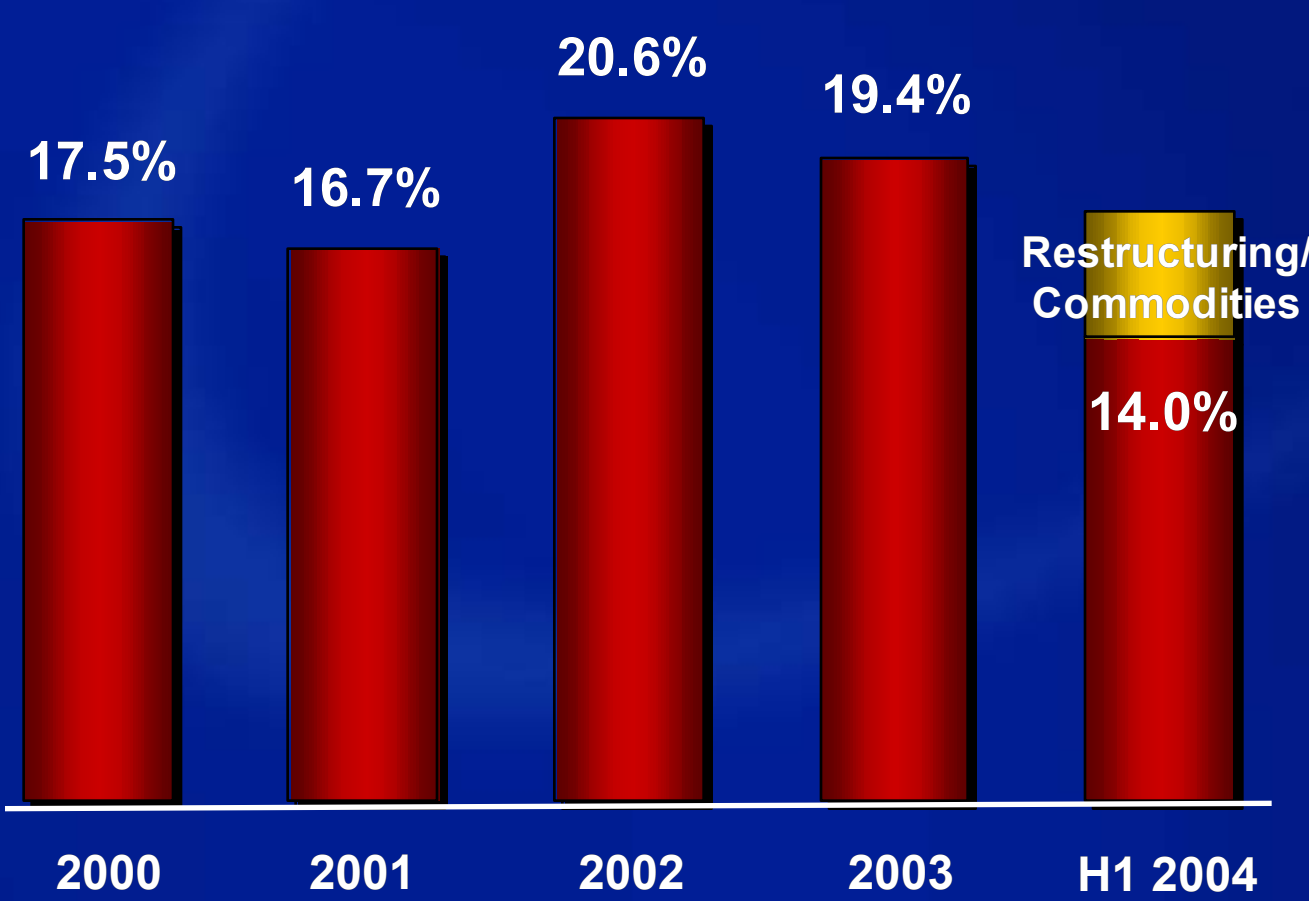
First Half 2004 vs. First Half 2003



Restructuring	(2.8) pp
Commodities (net of pricing)	(1.4) pp
In-Market Spending	(1.9) pp
Other	(0.4) pp

# Operating Margins

Operating Income/Net Revenue



Long-Term  
Expectation  
+0.5 pts  
Per Year

# Return on Invested Capital

12 Months Ended June 30, 2004

(\$ Billions)

## NOPAT:

Operations	4.0
Restructuring	<u>(0.3)</u>
Total	3.7

## Invested Capital:

Historical Value	12.2
Net Goodwill/Intang	36.9
Add: Accum. Amort.	<u>7.3</u>
Total	56.4

**ROIC** **6.5%**



# Return on Invested Capital

12 Months Ended June 30, 2004

(\$ Billions)

## NOPAT:

Operations	4.0
Restructuring	<u>(0.3)</u>
Total	3.7

## OCI:

Operations	5.7
Restructuring	<u>(0.4)</u>
Total	5.3

## Invested Capital:

Historical Value	12.2
Net Goodwill/Intangibles	36.9
Add: Accum. Amort.	<u>7.3</u>
Total	56.4

## Mgt Investment:

Rec/Inv/Other	8.0
PP&E	9.9
Payables/Other	<u>(5.6)</u>
Total	12.3

**ROIC**

**6.5%**

**ROMI**

**43.0%**



# Return on Invested Capital

12 Months Ended June 30, 2004

(\$ Billions)

<b>NOPAT:</b>		<b>OCI:</b>	
Operations	4.0	Operations	5.7
Restructuring	<u>(0.3)</u>	Restructuring	<u>(0.4)</u>
<b>Total</b>	<b>3.7</b>	<b>Total</b>	<b>5.3</b>
<b>Invested Capital:</b>		<b>Mgt Investment:</b>	
Historical Value	12.2	Rec/Inv/Other	8.0
Net Goodwill/Intangibles	36.9	PP&E	9.9
Add: Accum. Amort.	<u>7.3</u>	Payables/Other	<u>(5.6)</u>
<b>Total</b>	<b>56.4</b>	<b>Total</b>	<b>12.3</b>
<b>ROIC</b>	<b>6.5%</b>	<b>ROMI</b>	<b>43.0%</b>

Long-Term Improvement: ROIC +0.3 - 0.5 pp/yr  
 ROMI +0.5 - 1.0 pp/yr



# Financial Highlights

- Realistic long-term targets
- **Strong cash flow generation**
- Efficient cash flow use

# Discretionary Cash Flow

(\$ Billions)



# Discretionary Cash Flow

(\$ Billions)



# Working Capital Management

## Cash Conversion Cycle

	Year-End		Better/ (Worse)
	2002	2003	
Receivables (DSO)	36	37	(1)
Inventories (DIOH)	64	58	6
Payables (DPO)	(37)	(35)	(2)
Cash Conversion Cycle (Days)	63	60	3

# Working Capital Management

## Cash Conversion Cycle

	Ending June		Better/ (Worse)
	2003	2004	
Receivables (DSO)	38	37	1
Inventories (DIOH)	69	63	6
Payables (DPO)	(31)	(33)	2
Cash Conversion Cycle (Days)	76	67	9

# Working Capital Management

## Cash Conversion Cycle

**Future improvement in inventory days enabled by:**

- **Supply chain decomplexity**
- **Consumption-based merchandising**
- **Raw material management**

# Capital Spending

(\$ Billions)



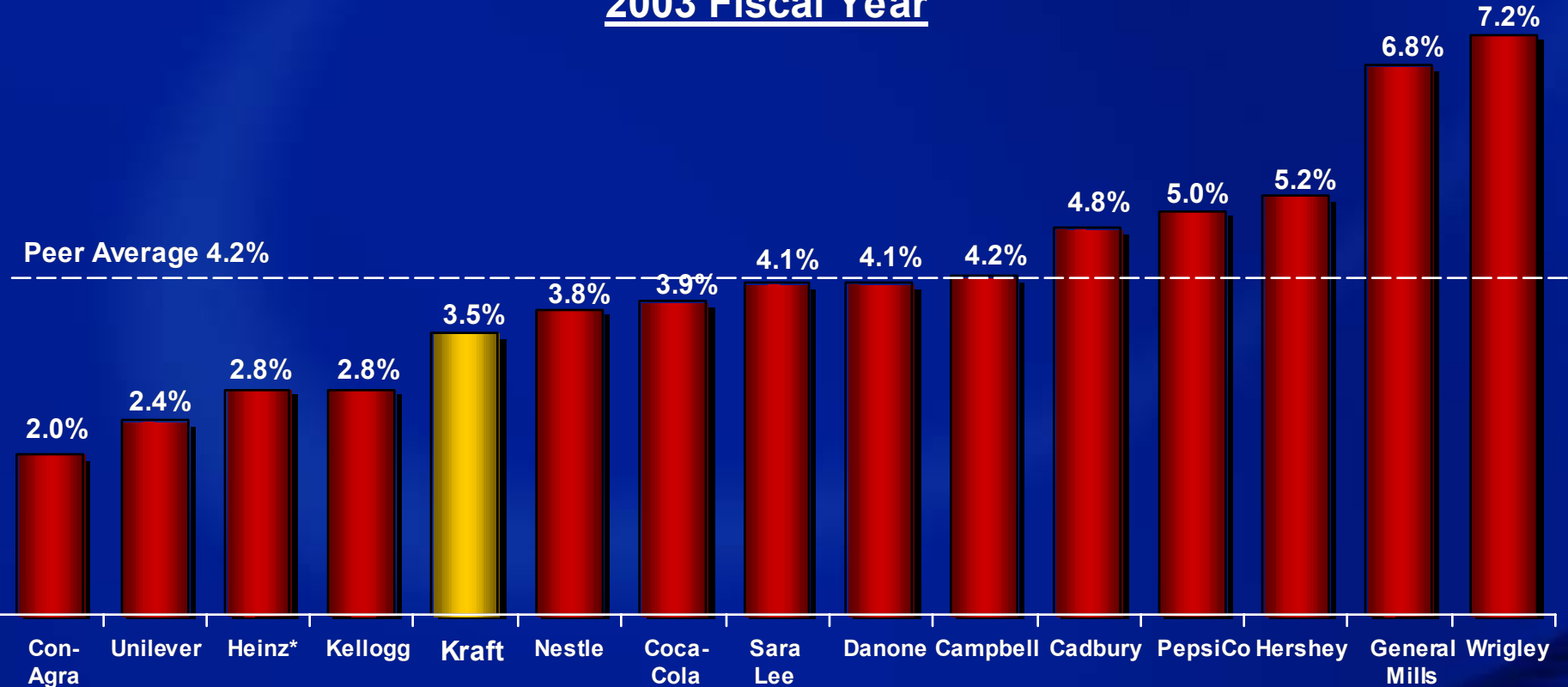
	2001	2002	2003	2004	Long-Term Guidance
Percent of Revenue	3.8%	4.0%	3.5%	3.4%	3.0 - 3.5%
Depreciation Ratio	1.6	1.7	1.3	1.3	



# Capital Spending

## Food & Beverage Industry Peers – % of Revenue

2003 Fiscal Year

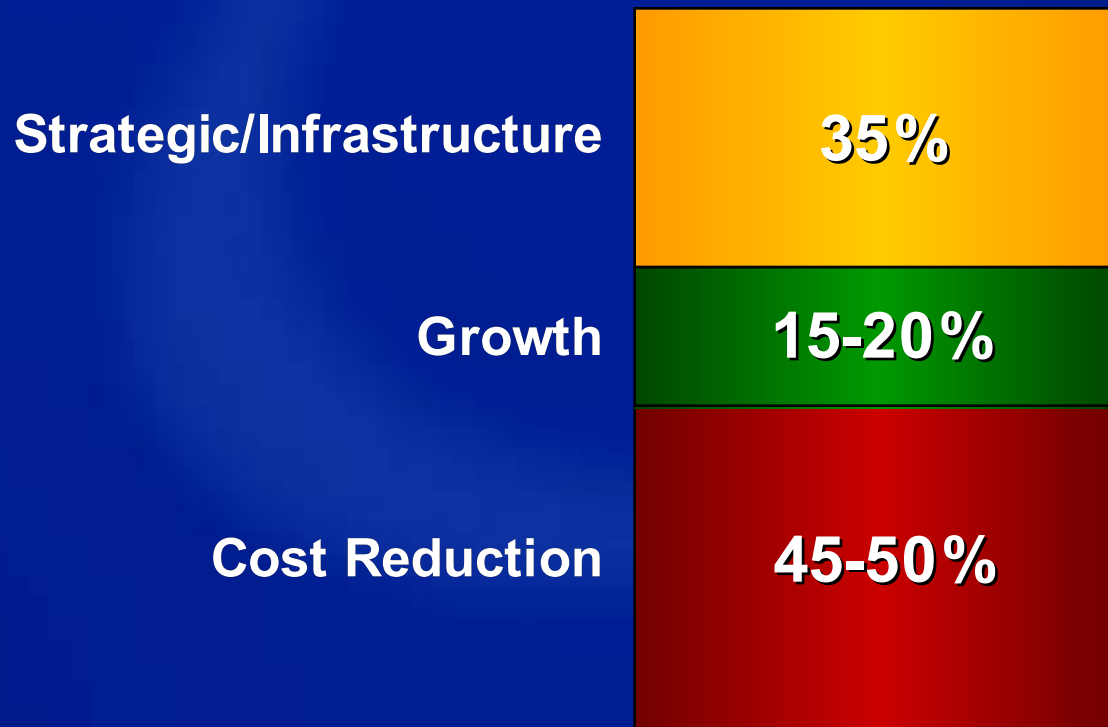


Source: Bloomberg  
\* Heinz based on 2004 fiscal year



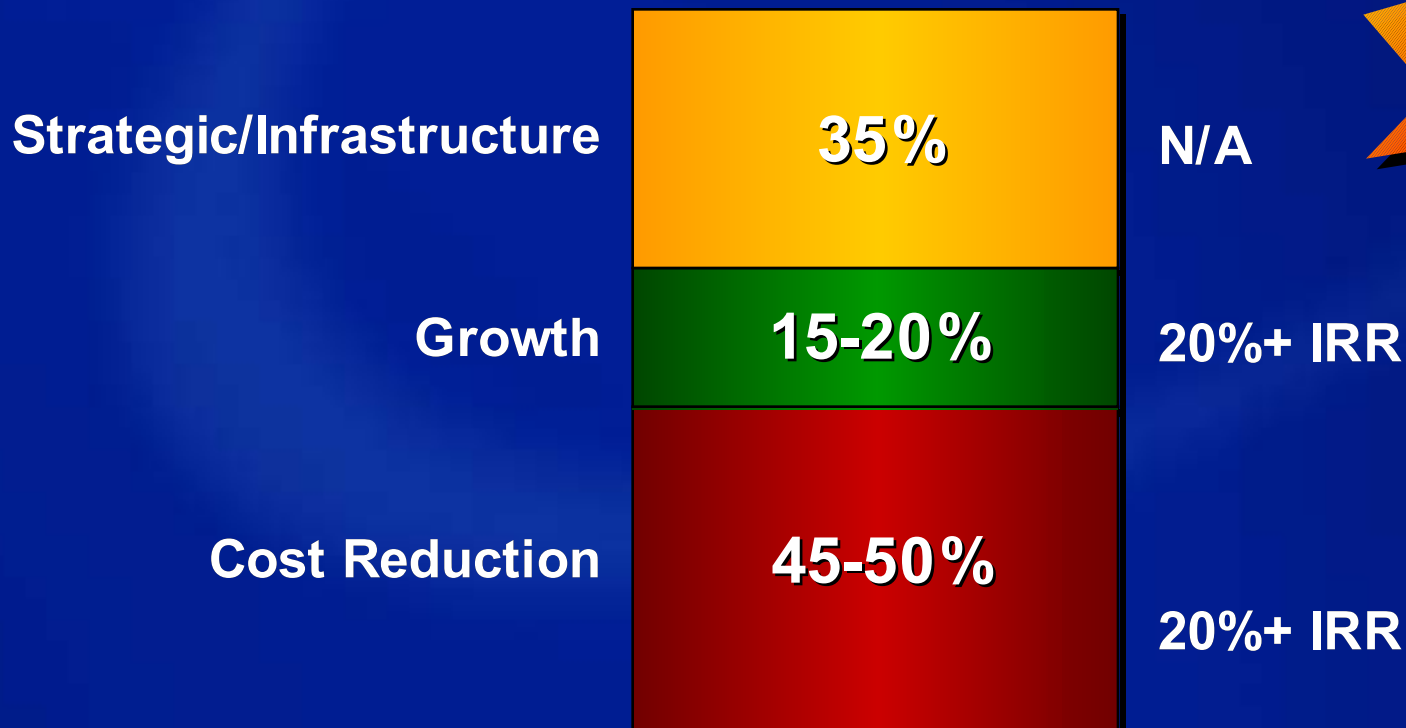
# Capital Spending

## Allocation Process



# Capital Spending

## Allocation Process



**Avg  
13%+  
IRR**

# Discretionary Cash Flow Uses

- **Drive growth**
  - Tack-on acquisitions
  - Trademark licensing

# Tack-On Acquisitions/Divestitures

## Net Source/(Use) of Cash

(\$ Billions)



# Tack-On Acquisitions/Divestitures

## Recent Divestitures



Latin America  
Bakery  
Ingredients

## Recent Acquisitions



# Trademark Licensing

Historical



BREYERS®

2004



# Discretionary Cash Flow Uses

- **Drive growth**
- **Return to shareholders**
  - **Dividend increases**
  - **Share repurchases**

# Dividends

Annualized Dividend per Share as of Date



August '04 Board Decision

# Dividends

Annualized Dividend per Share as of Date

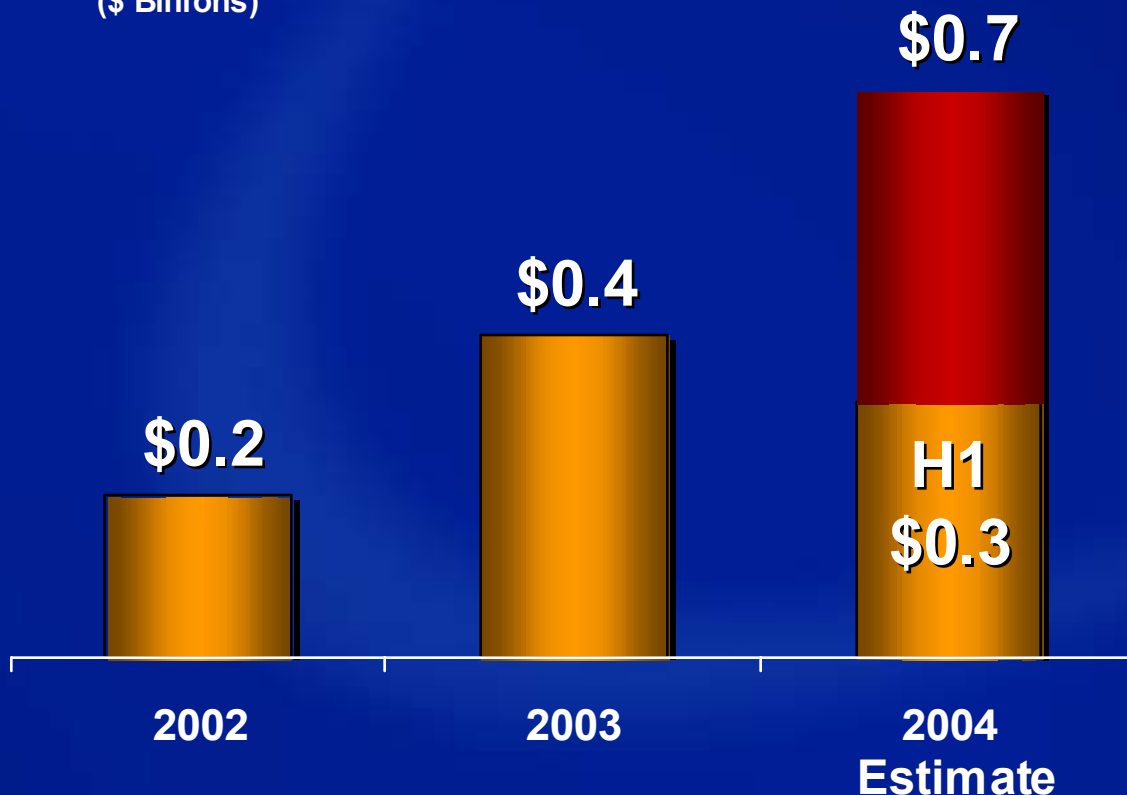


Long-Term:  
Grow Dividends With Cash Flow



# Share Repurchases

(\$ Billions)



- Authorized for \$700 million through 2005
- Expect to use full authority in 2004
- Future programs subject to Board approval

# Discretionary Cash Flow Uses

- Drive growth
- Return to shareholders
- Reduce debt

# Debt Outstanding

End of Period

(\$ Billions)



# Financial Highlights

- **Realistic long-term targets**
- **Strong cash flow generation**
- **Efficient cash flow use**



## Financial Q&A

# Today's Agenda

- **Strategic Overview** Roger Deromedi
- **Sustainable Growth Plan**
  - Building Brand Value David Johnson
  - Transforming Our Portfolio Betsy Holden
  - Expanding Global Scale Hugh Roberts
  - Driving Out Costs & Assets Franz-Josef Vogelsang
- **Financial Review** Jim Dollive
- **Wrap-Up** Roger Deromedi