

# Company Report

**FLASH NOTE**  
November 7, 2017

**Valuation & Research Specialists (VRS)**  
Equity Research Team  
info@valueinvest.gr

**Share Price (7/11/2017)**  
NYSE, \$ **60.84**

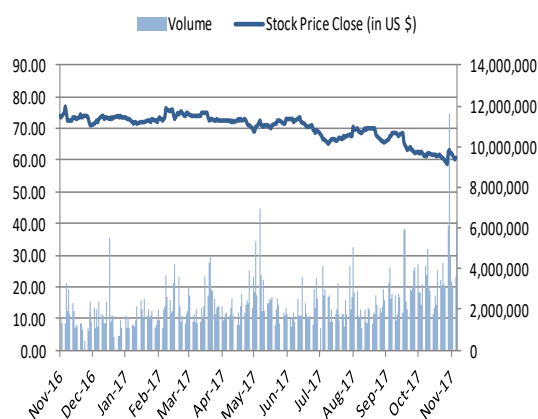
**# of Shares (mn)** 345.14  
**Market Cap (in \$ mn)** 20,998.01  
**A.D. Volume (p)** 2,298,297  
**Beta Co-efficient** 0.616

**Statistical Data**

**Max 52 week, \$** 76.96  
**Min 52 week, \$** 58.87  
**1-M Rtn** -0.06%  
**6-M Rtn** -9.52%  
**12-M Rtn** -15.67%

Source: VRS Calculations, Reuters.  
Period as day/month/year.

**Stock Price Performance & Transaction Volume**  
(1 year, in \$ and in number of shares)



Note: Share price performance based on share price closes on Stock Exchange.  
Period as day/month/year.

## KELLOGG COMPANY

Listed on NYSE - U.S.A. [Bloomberg Ticker: K:US] [Reuters Ticker: K.N]

**Business Sector / Industry: Consumer Staples / Processed & Packaged Goods**

### Corporate & Investment Highlights

- Kellogg Company is a manufacturer and marketer of ready-to-eat cereal and convenience foods. The Company's principal products are ready-to-eat cereals and convenience foods, such as cookies, crackers, savory snacks, toaster pastries, cereal bars, fruit-flavored snacks, frozen waffles and veggie foods.
- Its segments include U.S. Morning Foods, which includes cereal, toaster pastries, health and wellness bars, and beverages; U.S. Snacks, which includes cookies, crackers, cereal bars, savory snacks and fruit-flavored snacks; U.S. Specialty, which represents food away from home channels, including food service, convenience, vending, Girl Scouts and food manufacturing; North America Other, which includes the U.S. Frozen, Kashi and Canada operating segments; Europe, which consists of European countries; Latin America, which consists of Central and South America and includes Mexico, and Asia Pacific, which consists of Sub-Saharan Africa, Australia and other Asian and Pacific markets.

### Consolidated Interim Financial Results (9M 2017 versus 9M 2016, \$ millions)

(in \$ mn)	9M 2017	%	9M 2016
Sales	9,714	-2.05%	9,917
Gross Profit	3,701	-2.06%	3,779
Operating Income	1,277	-1.54%	1,297
EBT	1,084	12.80%	961
EATAM	841	12.58%	747

### Consolidated Annual Financial Results (2016 versus 2015, \$ millions)

(in \$ mn)	2016	%	2015
Sales	13,014	-3.78%	13,525
Gross Profit	4,755	1.58%	4,681
EBITDA	1,845	20.59%	1,530
EBT	927	19.92%	773
EATAM	695	13.19%	614

Source: Company. Note: Fiscal Year ends on December 31<sup>st</sup>.

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### BASIC FINANCIAL INDICATORS

in \$ million	Sales	Gross Profit	EBT	EATAM	P/E (x)	P/BV (x)	EV/EBITDA (x)	DEBT/EQUITY (x)	ROE %
2011	13,198	5,152	1,184	864	24.3	11.7	15.0	3.36	48%
2012	14,197	5,434	1,325	961	21.9	8.7	14.1	3.28	40%
2013	14,792	6,103	2,606	1,808	11.6	5.9	8.3	2.07	51%
2014	14,580	5,063	825	633	33.2	7.5	18.3	2.64	23%
2015	13,525	4,681	773	614	34.2	9.9	18.6	3.64	29%
2016	13,014	4,755	927	695	30.2	11.0	15.4	4.06	36%
2017 E	12,718	4,647	906	1,370	15.3	9.9	15.7	3.68	65%
2018 E	12,690	4,637	904	1,463	14.3	9.0	15.4	3.16	63%

Notes: (1) EATAM and equity are calculated excluding minorities. (2) P/E, P/BV and EV/EBITDA are based on current share price and current outstanding number of shares. Source: Official Consolidated Financial Statements, VRS Estimates & Calculations. n/c stands for non calculable.

### Working Capital Ratios

in \$ million	2013	2014	2015	2016	2017 E	2018 E
Revenues	14,792	14,580	13,525	13,014	12,718	12,690
Cost (net of depreciation)	8,689	9,517	8,844	8,259	8,071	8,053
Gross Profit Margin	% 41.26%	34.73%	34.61%	36.54%	36.54%	36.54%
Net Income / Profit	1,808	633	614	695	1,370	1,463
Net Profit Margin	% 12.2%	4.3%	4.5%	5.3%	10.8%	11.5%
Cash & Cash Equivalents	273	443	251	280	552	590
<b>Stock Days</b>	Days	52	49	52	55	55
Stock Inventory		1,248	1,279	1,250	1,238	1,210
<b>Debtors Days</b>	Days	35	32	36	35	35
Debtors - Receivables		1,424	1,276	1,344	1,231	1,203
<b>Creditors Days</b>	Days	60	59	79	89	89
Creditors - Suppliers		1,432	1,528	1,907	2,014	1,968
<b>Operating Cycle (Days)</b>	Days	88	81	88	89	89
<b>Cash Cycle (Days)</b>	Days	27	22	9	0	0

Source: Official Consolidated Financial Statements, VRS Estimates & Calculations. Gross profit is calculated by deducting cost of sales (net of depreciation, wherever applicable) from revenues.

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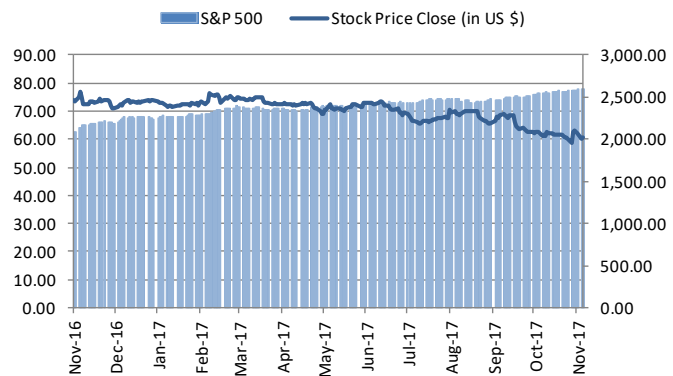
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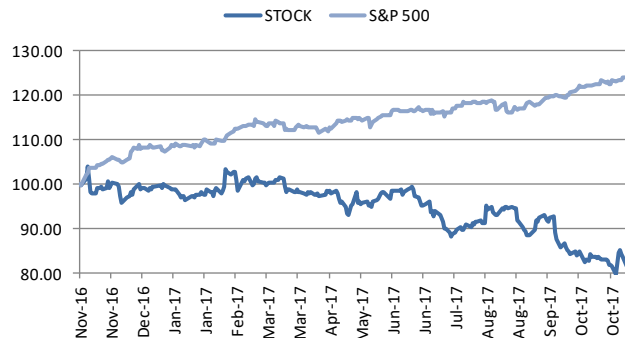
**Business Sector / Industry: Consumer Staples / Processed & Packaged Goods**

**Stock Versus S&P 500 Index**  
(Last 52 Weeks or since listing, Stock Price in \$, Index in points)



Source: Historical Data, Yahoo! Finance. Note: Share price performance based on price closes on Stock Exchange.  
Period as day/month/year.

**Stock Versus S&P 500 Index**  
(Last 52 Weeks or since listing, Base = 100)



Source: Historical Data, Yahoo! Finance. Note: Share price performance based on price closes on Stock Exchange.  
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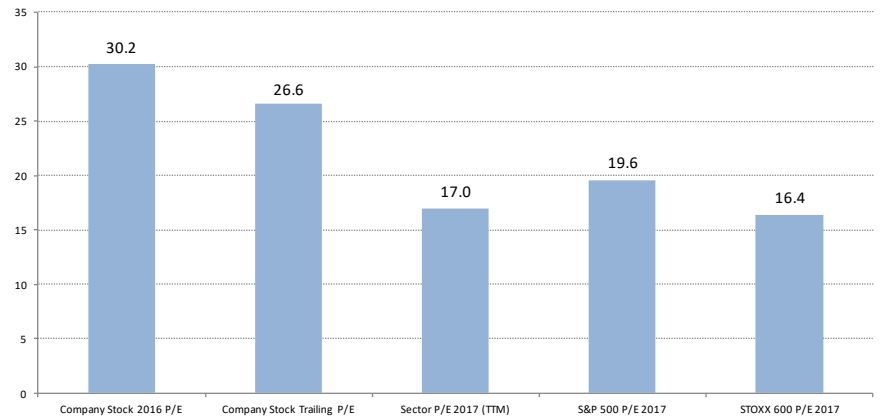
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### Company Historic P/E Multiple versus Market P/E Multiples (x)



Source: VRS calculations based on consolidated accounts, FACTSET.

### Shareholders' Structure

Kellogg W K Foundation Trust	19.68%
Keybank National Association	7.48%
Capital Research Global Investors	6.96%
Vanguard Group, Inc. (The)	5.89%
Blackrock Inc.	5.42%
Other Investors and Free Float	54.57%
<b>Total</b>	<b>100.00%</b>

Source: Company, Yahoo! Finance.

### EPS Estimates

In \$	EPS
2016	2.011
2017 E	3.970
2018 E	4.240

Source: VRS calculations & estimates.

### Important Note:

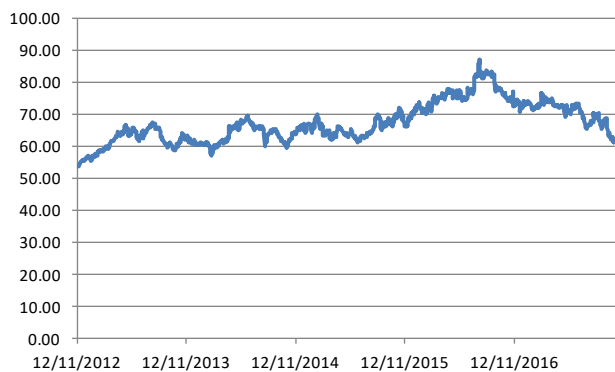
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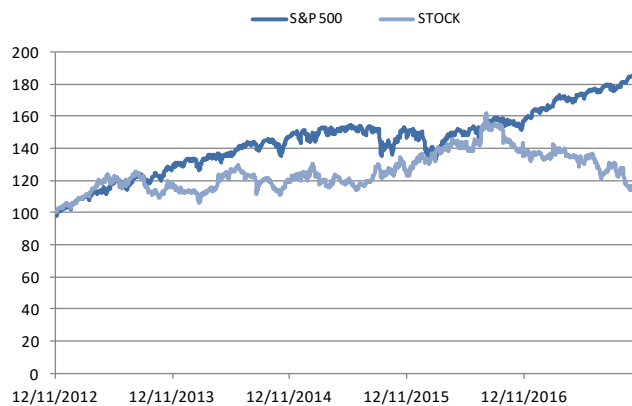
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**Stock Price Performance**  
(Last 5 Years or since listing, Stock Price in \$)



Source: Historical Data, Yahoo! Finance. Note: Share price performance based on price closes on Stock Exchange.  
Period as day/month/year.

**Stock Versus S&P 500 Index**  
(Last 5 Years or since listing, Base = 100)



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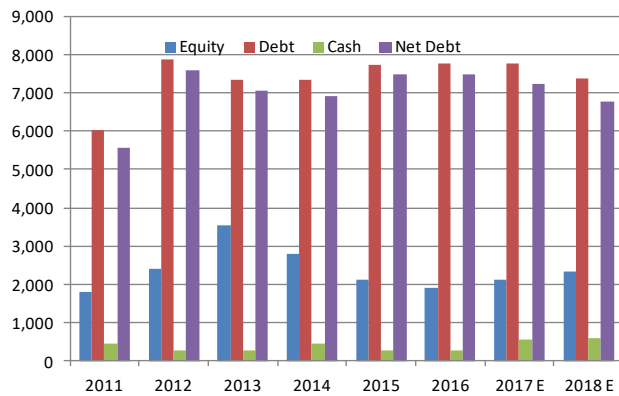
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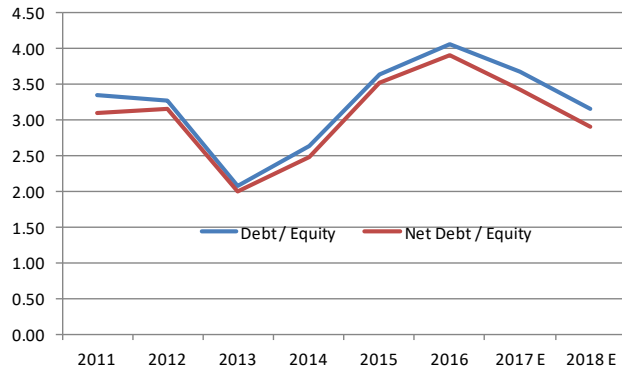
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**Equity, Debt, Cash & Net Debt**  
(in \$ millions)



Source: Company, VRS estimates

**"Debt/Equity" & "Net Debt/Equity" Ratios**  
(times)



Source: Company, VRS estimates

Important Note:

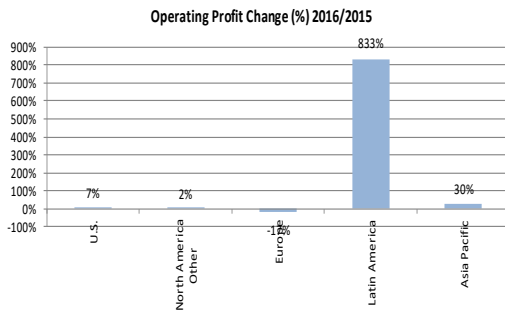
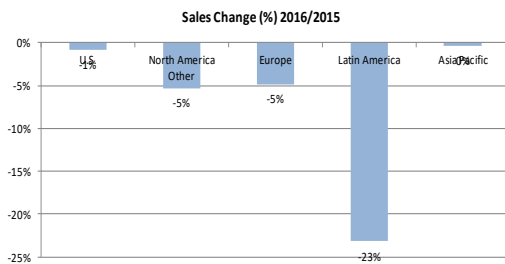
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### Sales & Op. Pr. Change, FY 2016 vs FY 2015



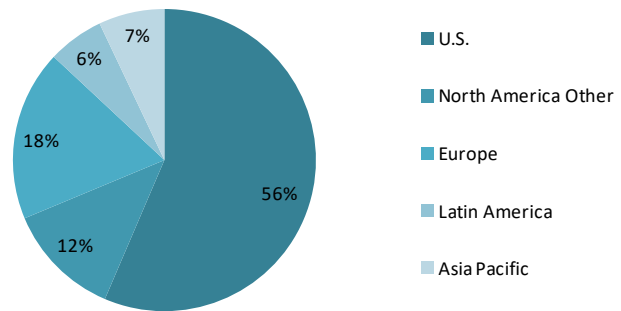
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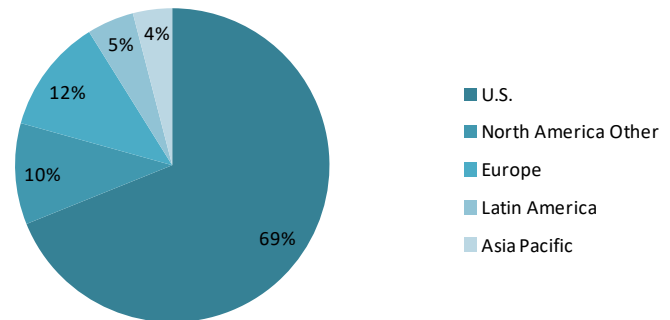
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### Consolidated Sales & Operating Profit Breakdown, FY 2016 (%)

#### Sales Breakdown, FY 2016



#### Operating Profit Breakdown, FY 2016



Source: Company

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### Consolidated Income Statement (In \$ millions)

(Millions, except per share amounts)	2016	2015
<b>Net Sales</b>	<b>13,014</b>	<b>13,525</b>
Cost of goods sold	-8,259	-8,844
Selling, general and administrative expense	-3,360	-3,590
<b>Operating profit</b>	<b>1,395</b>	<b>1,091</b>
Interest Expense	-406	-227
Other income (expense), net	-62	-91
<b>Income before income taxes</b>	<b>927</b>	<b>773</b>
Income Taxes	-233	-159
Earnings (loss) from unconsolidated entities	1	0
<b>Net income</b>	<b>695</b>	<b>614</b>
<b>Net income (loss) attributable to noncontrolling interest</b>	<b>-1</b>	<b>0</b>
<b>Net income attributable to Kellogg Company</b>	<b>694</b>	<b>614</b>
<b>Per share amounts:</b>		
Basic	1.98	1.74
Diluted	1.96	1.72
<b>Dividends per share</b>	<b>2.04</b>	<b>1.98</b>

Source: Company

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### Consolidated Balance Sheet (In \$ millions)

(Millions)	2016	2015
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	280	251
Accounts receivable, net	1,231	1,344
Inventories	1,238	1,250
Other current assets	191	391
<b>Total current assets</b>	<b>2,940</b>	<b>3,236</b>
Property, net	3,569	3,621
Goodwill	5,166	4,968
Other intangibles, net	2,369	2,268
Investment in unconsolidated entities	438	456
Other assets	629	702
<b>Total assets</b>	<b>15,111</b>	<b>15,251</b>
<b>CURRENT LIABILITIES</b>		
Current Maturities of long-term debt	631	1,266
Notes payable	438	1,204
Accounts payable	2,014	1,907
Other current liabilities	1,391	1,362
<b>Total current liabilities</b>	<b>4,474</b>	<b>5,739</b>
Long-term debt	6,698	5,275
Deferred income taxes	525	685
Pension liability	1,024	946
Other liabilities	464	468
Commitments and contingencies		
Equity		
Common stock, \$.25 par value, 1,000,000,000 shares authorized Issued: 420,472,901 shares in 2016 and 420,315,589 shares in 2015	105	105
Capital in excess of par value	806	745
Retained earnings	6,571	6,597
Treasury stock, at cost 69,403,567 shares in 2016 and 70,291,514 shares in 2015	-3,997	-3,943
Accumulated other comprehensive income (loss)	-1,575	-1,376
Total Kellogg Company equity	1,910	2,128
Noncontrolling interests	16	10
<b>Total equity</b>	<b>1,926</b>	<b>2,138</b>
<b>Total liabilities and equity</b>	<b>15,111</b>	<b>15,251</b>

Source: Company

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### Consolidated Cash Flow Statement (In \$ millions)

(Millions)	2016	2015
<b>Net income</b>	<b>695</b>	<b>614</b>
Adjustments to reconcile net income to operating cash flows:		
Depreciation and amortization	517	534
Postretirement benefit plan expense	198	320
Deferred income taxes	-26	-169
Stock compensation	63	51
Venezuela deconsolidation	72	0
Venezuela remeasurement	11	169
VIE deconsolidation	0	-49
Other	-74	-13
Postretirement benefit plan contributions	-33	-33
Changes in operating assets and liabilities, net of acquisitions:		
Trade receivables	21	-127
Inventories	7	-42
Accounts payable	124	427
Accrued income taxes	4	29
Accrued interest expense	7	5
Accrued and prepaid advertising, promotion and trade allowances	14	7
Accrued salaries and wages	-7	20
All other current assets and liabilities	35	-52
<b>Net cash provided by (used in) operating activities</b>	<b>1,628</b>	<b>1,691</b>
<b>Investing activities</b>		
Additions to properties	-507	-553
Acquisitions, net of cash acquired	-398	-161
Reduction of cash due to Venezuela deconsolidation	-2	0
Investments in unconsolidated entities	27	-456
Other	-13	43
<b>Net cash provided by (used in) investing activities</b>	<b>-893</b>	<b>-1,127</b>
<b>Financing activities</b>		
Net increase (reduction) of notes payable, with maturities less than or equal to 90 days	-918	443
Issuances of notes payable, with maturities greater than 90 days	1,961	214
Reductions of notes payable, with maturities greater than 90 days	-1,831	-283
Issuances of long-term debt	2,657	696
Reductions of long-term debt	-1,737	-606
Net issuances of common stock	368	261
Common stock repurchases	-426	-731
Cash dividends	-716	-700
Other	0	0
<b>Net cash provided (used in) financing activities</b>	<b>-642</b>	<b>-706</b>
Effect of ex change rate changes on cash and cash equivalents	-64	-50
Increase (decrease) in cash and cash equivalents	29	-192
Cash and cash equivalents at beginning of period	251	443
<b>Cash and cash equivalents at end of period</b>	<b>280</b>	<b>251</b>
<b>Supplemental cash flow disclosures:</b>		
Interest paid	405	228
Income taxes paid	256	337
<b>Supplemental cash flow disclosures of non-cash investing activities:</b>		
Additions to properties included in accounts payable	161	147

Source: Company

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Covered Company	Bloomberg	Reuters	Stock Price	Date	Disclosure
KELLOGG COMPANY	K:US	K.N	\$ 60.84	November 7, 2017	----

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