2023 Consumer Analyst Group of New York (CAGNY) Conference

Company Participants

- Amit Banati, CFO
- Christopher Hood, SVP & President
- David Lawlor, SVP & President Europe

Other Participants

- Jason English, Analyst
- Kenneth Goldman, Analyst
- Michael Lavery, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

We’re very thankful to Kellogg for sponsoring a fantastic long time CAGNY tradition, the Kellogg breakfast with characters. Let’s give it up for Kellogg. Thank you.

Once again we’re also excited to welcome Kellogg management in just over five years since taking the reins at Kellogg Steve and his team restored top line momentum led by the strength of the snack portfolio and exceptional growth in emerging markets. All of Kellogg proved resilient through extraordinary challenges since they last presented in 2020.

Unfortunately Steve’s fallen ill, but really wanted to be with us. So he’s going to be with us by video this morning. So by video, we’re honored to have Steve Cahillane, Chairman and CEO of Kellogg. Steve, take it away.

CAGNY. It must be great to be back in Boca in the sunshine and in person. Unfortunately, I am under the weather and unable to join you physically, but I don’t want to miss the chance to speak to you at least by video, and you’ve got distinguished members of our team there in person.

Before I begin, I hope you enjoyed the breakfast this morning and then not only nursed you but delighted you and gave you a sense of the excitement that our portfolio of brands has to offer. In this short presentation today I’m going to discuss just how much our company has been strengthened over the years since we last met right here at CAGNY. Then Chris Hood and Dave Lawlor, Presidents of North America and Europe, respectively,
are going to give you some insights into what makes us so confident we can sustain our balanced financial delivery. Then Amit will discuss our pending spin-off and why we are so confident that it will create value for you and all our stakeholders. But first, a word from our lawyers, reminding you that we are talking about forward-looking statements.

Since the last time you were here in this room together, our financial performance has improved significantly, as you can see on slide number 4. We accelerated our net sales growth to a 3-year compound annual growth rate of 7% on an organic basis. This was well ahead of our long-term algorithm and has been broad-based across regions and category groups. Yes, this period included a pandemic and an inflationary environment, but behind this accelerated growth were lasting improvements to our portfolio and our capabilities. We accelerated our operating profit growth as well to a 3-year CAGR of 5%, in line with our long-term algorithm despite a major fire in strike in one of our businesses and the most difficult and expensive operating environment in memory. This drove earnings per share growth of a similar rate.

We greatly improved our cash flow conversion and reduced our debt leverage, providing us with more financial flexibility. To deliver this kind of growth in the volatile environment of the last few years is a credit to our organization, our portfolio and our strategy. Through it all, there are some very important drivers that will continue to enable this kind of balanced financial delivery. Let’s examine a few of them now.

The first driver with lasting benefits is our strategy, depicted with new artwork on slide number 5. When we last met here in person, we were only two years into our Deploy for Growth strategy, laying the foundation. Since that time, we have remained solidly on this strategy, which has influenced every aspect of our business and led to tangible actions, investments and results. It’s clearly working and will continue to guide us.

Deploy for Growth calls for shaping a growth portfolio, and slide number six shows how much we reshaped our portfolio toward growth, even just since the last time we were here in Boca three years ago. Back then, we had just divested 4 non-core U.S. businesses, improving our growth and margin profile, and we are in the process of successfully extracting any resultant stranded margins, a capability that is again going to be very valuable in the next few years. Since then, we have continued to shape our portfolio organically.

We proceeded to accelerate the growth of our noodles and other business in Africa, a $1 billion business that gives us an advantaged foundation for strong growth for years to come. We expanded snacks at impressive rates around the world, led by world-class brands. This made snacks already our largest business and even larger portion of our portfolio with important implications for future above-average growth. These portfolio shifts has lasting impact, bolstering our ongoing growth profile.

This growth and portfolio shift has been led by our world-class brands shown on slide number 7. These brands have been strengthened since we were last together in person. We created a step change in marketing behind Pringles, which now generates nearly $3 billion of our annual net sales, whether it’s been advertising to the Super Bowl or creating
social media buzz about flavor stacking or promoting around electronic gaming, Pringles has been in the conversation. New pack formats that brought this brand into different occasions and channels and innovations such as Scorchin in the U.S., Rice Fusion in Europe or local flavors in Asia, it has continued to keep the brand fresh.

For CHEEZ-IT, we added 2 new food platforms in SNAP’d and PUFF’D, which are incremental to the franchise by reaching new occasions and consumers. We also entered international markets for the first time, starting with Canada, Brazil and most recently, Mexico. Meanwhile, we sustained momentum behind Pop-Tarts and Rice Krispies Treats despite being up against capacity, and we began a renewed push behind these 2 world-class brands internationally, starting with our biggest developed markets: Canada, the U.K. and Australia. Eggo grew again in 2022 despite its own capacity constraints, and Frosted Flakes grew in all 4 regions despite being supply disruptive going into the year.

These brands will be growth drivers for a long time, given their differentiation. There’s really nothing quite like any of these brands, if you think about it, and their substantial brand equity. This is no small matter when you consider that these 6 brands collectively represent more than 40% of Kellogg Company’s net sales.

Here’s another area we’ve strengthened since the last time we were together here, our emerging markets businesses whose organic net sales growth is shown on slide number 8. Population growth and rising disposable incomes make emerging markets a key source of long-term growth. Our emerging markets businesses are in growing markets in Latin America, Asia and Africa. We compete in these markets with strong, differentiated and beloved brands that can play across channels and price points and can be adapted to local cultures and tastes. In these markets, route to market is supremely important from expanding the reach of Multipro, our majority-owned distributor in Nigeria to aligning with a strategic partner to expand distribution of Pringles in Brazil, we have strengthened our route to market across key emerging markets over the past few years.

We’ve also invested in local manufacturing in several emerging markets. In Brazil, we built a Pringles plant and replaced a cereal plant with a modernized facility. In Poland and Malaysia, we added capacity for Pringles. In Africa, we have added local capacity for cereal and noodles. In all of these markets, we have experienced management teams and partners in the case of West Africa. The result has been a track record of consistently high growth and by continuing to build scale in these markets, we will sustain momentum and add to profitability for many years to come.

Since the last time we were together here, profit margins have been pressured both by the highest input cost inflation we have seen in decades and by economy-wide bottlenecks and shortages that created inefficiencies and incremental costs. Plus, we also had unusual events in the form of a fire and strike. As we get through these conditions, we will see a lessening of these pressures. But more importantly, we will actively restore and improve our margins in a variety of ways.

One is simply the operating leverage across the P&L that comes from sustaining net sales growth. Another is productivity for which we have a strong track record of delivering year
after year. We will add to this productivity a variety of cost savings projects, including several network realignments already underway in North America and another has to do with premiumizing our product lines through innovation and renovation. But 2 more margin drivers are depicted here on slide number 9. One is the mix shift toward world-class brands, which generate a meaningfully higher brand contribution margin than the rest of our portfolio, as shown on the chart on the left, and they will continue to grow faster than the rest of the portfolio.

Another important driver is building scale in emerging markets. This is a function of filling plants, filling trucks and spreading necessary overhead and brand investment across more units sold. The chart on the right gives examples of markets at different stages of scale. Mexico, for instance, has built up scale over the years and therefore has margins that are above the company average. Our business in India meanwhile is still building up distribution in that vast market and its margins are around the company average. In Brazil, not only are we building up distribution, but we’re also in the relatively early days of filling recently installed capacity. And don’t forget another margin driver and a capability we have enhanced greatly in recent years and that’s revenue growth management.

About five years ago, we began investing in this capability, bringing in outside expertise, establishing processes, honing our data and analytics and training our people around the world. In all of our regions and all of our categories, this RGM capability has produced carefully implemented price realization, an important complement to our productivity initiatives in our effort to cover the dollar impact of this input cost inflation. Its disciplined approach is a big reason we continue to have constructive collaboration with our retail partners. Note that we’ve used this RGM discipline to implement pricing to offset input cost inflation only and not to cover any of the costs and inefficiencies related to bottlenecks and shortages. That’s why you see it not keeping up with our COGS per kilo on the chart on slide number 10. But there is no question that RGM will continue to be an important ongoing capability.

While we’re talking about capabilities, another lasting improvement is the occasion-based mindset that we’ve developed. Deploy for Growth directs us to win occasions. Over the past few years, this has been ingrained into our commercial plans and execution. We’ve extended our offerings into new pack formats like immediate consumption packs and multi-packs, a sampling of which are shown on slide number 11. We created a new segment in the cereal category with JUMBO SNAX, and we’re even experimenting with just add water instable line. We’ve launched new food platforms under key brands such as PUFF’D under CHEEZ-IT, providing a different snacking experience.

The pandemic shook up eating occasions, and we have been there, and we will continue to be there. Meanwhile, we’ve also been busy these past few years improving our capabilities. For instance, we bolstered our digital capabilities on everything from leveraging first-party data to developing real-time content measurement and adaptation to refining the targeting of occasions and consumers in personalizing the content and to increasing our presence in digital channels. As you can see on the chart on slide number 12, we have been shifting our media investment toward digital for the past few years. Today more than half of our media spend is through digital, and we have improved our effectiveness in addition to cost efficiency.
In these past couple of years, we have also greatly expanded our presence in e-commerce as shown on slide number 13. We’ve honed our digital shelf analytics to transform data into insights. We centralized and automated content delivery to retail partners, and we’ve established principles and practices to ensure our teams around the world know how to best execute and measures all levers of digital shelf execution. It’s now roughly 7% of our global sales, and we have continued to grow even after the pandemic-related surge. It’s twice the size it was before the pandemic, and we never stopped growing after 2020.

This growth has been especially impressive in the U.S. where our retail sales exceed $1 billion and where we have an online share advantage over offline in cereal, crackers, salty snacks and plant-based. This is a credit to the capabilities and teams we have built in this channel. Our Deploy for Growth pillar of perfect service, perfect store, has been tested like never before during the global supply disruption of the past couple of years. Yet the lessons learned have been invaluable, and some of the lasting improvements are listed on slide number 14.

We built up our supply chain resiliency with the establishment and refinement of a control tower approach to identifying and escalating issues across our supply chain. We also continue to refine and embed our operating model called Kellogg Work Systems. KWS provides the rigor needed to ensure our standard processes, systems and tools are used to keep the momentum during these challenging times.

Additionally, this is a platform for building capabilities, which was critical for upskilling our workforce amidst labor shortages and heightened employee turnover.

We also identified alternative sources for key inputs, and we added capacity around the world for food platforms and pack formats that have experienced particularly robust demand. In fact, through physical additions and operating efficiencies, we have effectively increased our annual capacity by 10% over the last three years. On the right-hand side in this slide, you can see how quickly we have been able to restore service levels in North America following severe supply disruptions in 2020 and 2021. These service levels were more stable in other regions, and they too are approaching pre-pandemic levels.

Meanwhile, we intensified our focus on food and people safety because there’s nothing more important. We accelerated investment in automation and digital transformation that will have meaningful implications for driving supply chain performance and ensuring business continuity.

We also continued to progress on areas related to ESG, including partnering with farmers, purchasing from minority-owned suppliers and reducing our carbon footprint. Our capability improvements extend all the way to the store. Some are listed on slide number 15. Improved analytics have led to more efficient distribution, and we have equipped our salespeople with better data and analytics than ever before, which brings us to another way we’ve strengthened our company in the past few years. We’ve expanded our
commitment overall to the planet and our communities. Specifically, we’ve expanded our better days ESG strategy, reaching across aspects ranging from hunger to the environment to well-being and to equity, diversity and inclusion.

And we increased our goals and enhanced our disclosures. In other words, we’ve taken tangible actions and these are producing measurable results, some of which are outlined on slide number 16. On slide number 17, you can see that we have received confirming recognition from experts. We’ve also incorporated these environmental and social elements into our commercial strategy.

With that, I’d like to turn the podium over to Chris Hood, our President of Kellogg, North America to provide you a little more insight into how these improvements to our portfolio, brands and capabilities are playing out in North America. Chris, over to you.

Christopher Hood  

Great. Thanks, Steve. Good morning, everyone. So much of what Steve just described as improvements made to the total company during the past few years applied directly to North America. So we’re going to talk a bit about that over the next few minutes. If you take a look at this slide here, you can see the results of our portfolio reshaping. To our post-divestiture base, recall, we divested the cookies business in 2019. We’ve added over $1 billion worth of net sales over the past three years for a compound annual growth rate of nearly 5% on an organic basis. So that’s pretty strong growth, we think for a very developed market.

Driving this growth has been the enhanced capabilities that Steve just described as well as the resiliency of our supply chain that’s been tested like never before, especially over the past three years. But it also reflects the strengthening of our portfolio. A portfolio that in recent years has really shifted decidedly much more towards snacks and towards the accretive growth in margins of our advantaged world-class brands. So let’s begin on slide 20 with a discussion of our snacks business, starting with a look at the U.S. category growth rates on slide 20.

We are very fortunate to compete in snacking categories that have a track record of consistent, better than industry growth. If you consider the last three years to be elevated artificially by Covid, you can see in the previous period, ’18-’19, the growth rates that we were experiencing in the categories where we compete. Salty snacks growing at 4% a year, crackers and portable wholesome snacks growing at 3% a year, pre-Covid and then an acceleration significantly through Covid. We look at these categories, and we see very attractive places for us to play.

So 60% of our North American portfolio participates in consistently growing snacks categories, 60%. We tend to outpace these categories with the strength of our brands. This slide shows about 70% of our North American Snacks net sales come from 4 highly differentiated brands on this slide, CHEEZ-IT, Pringles, Pop-Tarts and Rice Krispies Treats. These brands have consistently grown over the past years, and there’s still a lot of runway left, both in share and in penetration. These brands are extendable and we’ve
successfully extended them into new platforms launched in the past few years, like Scorchin for Pringles, SNAP’d and PUFF’D for CHEEZ-IT, BITES for Pop-Tarts and HOMESTYLE for Rice Krispies treats. Hopefully, you had an opportunity to try some of those foods at the breakfast this morning.

These brands have also had success with new pack formats. It’s a big focus area for us. New multi-packs, variety packs, immediate consumption packs, which, of course are absolutely critical to impulse consumption occasions like snacking. We’ve added capacity for all of these brands over the past several years, and we have plans to continue to do that for the future to fuel further growth. As a result, the track record of these brands is excellent. This slide shows the consistently strong retail sales growth of Pringles over the past few years, along with some of the current brand building and innovation that we have in the marketplace right now.

On this slide, you can see Meghan Trainor, who starred in our Super Bowl ad a few -- some days [ph] ago. And from an innovation standpoint, we’ve broadened our offerings this year with flavors like sweet potato and multigrain, not to mention some Mexico inspired flavors. So great success track record on Pringles and a lot more opportunity to continue to grow going forward. CHEEZ-IT shows more of the same, consistent, impressive retail sales growth is what we’ve depicted on this slide. We’ve launched new food platforms, as I said, like SNAP’d and PUFF’D. We’ve expanded our pack formats to include small packs and variety packs. We’ve recently added more capacity for this brand to fuel further growth, and we’ve modernized our plans with automation and digitization.

We’ve got great exciting plans for CHEEZ-IT’s growth not only in the U.S. but also around global expansion rolling forward. Beginning in Canada, which we launched two years ago, it’s been very successful. This slide shows Pop-Tarts and Rice Krispies Treats, and Pop-Tarts is already a $1 billion brand at retail. So it’s a big business. It’s sustained growth through effective brand building behind its core range, innovation of new flavors and new food forms like Pop-Tart BITES. Rice Krispies Treats has been on a roll for years, expanding into new pack formats and tasty food innovations like the HOMESTYLE that I just referenced. And both of these brands have expanded capacity, giving them plenty of headroom to grow in North America and even globally.

Beyond these 4 advantage brands, we have a host of other snack brands that each have ambitions to be similarly world class. Think of brands like Nutri-Grain, RXBAR, CLUB Crackers. These are our next brands to get to $500 million or $1 billion in sales. So we’ve got a great portfolio. Now let’s talk about our Frozen Foods business, starting with slide 25. Almost 3/4 of this business is what we call from the griddle. So that would be our Eggo brand. This is a world-class brand that’s close to becoming a $1 billion brand at retail.

The chart on the left shows how Eggo has enjoyed steady growth over the years. It’s a brand that responds extraordinarily well to brand building and innovation. You can see that in the incrementality of our recently launched Liege-Style Waffle. And hopefully, some of you had an opportunity to try that at the breakfast as well. The chart on the right shows how the consumption growth re-accelerated once we had additional waffles capacity installed around midyear last year. This is another world-class brand, plenty of runway for growth. It defines the category where it competes and very, very attractive margins.
Our other leading brands in frozen is Morningstar Farms, that’s shown on slide 26. Morningstar Farms is less than $300 million of our net sales, but it’s grown steadily since our acquisition of this business couple of decades ago. The category enjoyed an incredible surge over the past couple of years. In fact, between the new entrants and the pandemic it effectively experienced several years of growth compressed into an 18-month timeframe. So it’s not surprising that right now, this category is in a bit of a consolidation phase, a bit of a pause. In 2022, we suffered a disruption in our supply chain on top of that.

But we really like this brand’s prospects. It’s a pioneer and a leading brand in the category. It has high penetration relative to category, plenty of room to grow behind innovation and brand building. It’s a true veggie-based food, cleaner label, trusted brand and it’s profitable. So this business, too, has a very solid outlook for growth over the long term. In the near term, a recovery from the disruptions that we experienced last year.

Now let’s turn to North American cereal on slide 27. North American cereal represents less than 1/3 of our North American net sales. This business, as you’ll all recall, was severely disrupted in 2021, first by fire and then a strike in our 4 major U.S. plants. The good news is that we’ve recovered at a faster pace on this business than we expected. And from getting production started up in the first half of this year, replenishing inventories and both our own internal inventories as well as those at retail. We turn to strengthening our commercial activity really in the back half of 2022. The result is that now we are regaining share in this business at a rapid pace and nearing our prestrike share levels. This comes at a time when the category is also in strong growth. You know the category well, it’s a century old category, high penetration and over extended periods of time, it tends to be quite stable. So it’s really encouraging to see this category on firm footing and even better to see our brands regaining share in the category.

We’re really excited about the commercial innovation we have planned for this year. But share and top line growth were only half of the story for North American cereal right now. The other element is recovering our margins. In our U.S. Cereal unit not only improved margins during 2022, but we expect it to continue to do so. Some of this will come from driving out inefficiencies related to our overall supply environment and also related to our push to improve service levels, which are now above 90% across all of our categories, but in cereal as well. In fact, we’re now supplying this business at service rates that are broadly in line with pre-pandemic levels. So we’re largely through all that disruption and closing in on the pre-disruption share levels.

So in summary, Kellogg North America is in better shape than it’s been in years. Our portfolio has been shifted towards snacks and toward our most advantaged and profitable brands. We’ve enhanced capabilities, both commercial and within our supply chain. We have capacity and supply restored in our frozen foods business. We have a cereal business that’s recovering ahead of our expectations and about to enjoy the benefits of being a focused stand-alone company. As you can see from our 2022 results, we have strong momentum going into the New Year. So with that, I’d like to turn it over to Dave Lawlor, who can tell a similar story around our European business. Thanks.
David Lawlor  {BIO 19926431 <GO>}

Thank you, Chris. Good morning, everybody. It's great to have the opportunity to speak with you and bring our European region to life for you. I'll talk about who we are today and very importantly, how we see ourselves evolving going forward in the future. So let me start with who are we.

Well I'd start by describing this as a rising power in snacks in Europe since the acquisition of the Pringles business, we've been growing capability, being growing capacity, growing performance and growing share. It's a great success story. We're also the leading brand player in cereal across the region from our Powerhouse business in the U.K. down to Continental Europe, France is a key market from Ireland to the highest capital consumption of cereal in the world over to Italy, fantastic businesses in our region. We are a region that believes that culture matters. Culture is what drives performance. We've been very intentional about the way we've chosen to invest around that. As a result, we're a very resilient team. We are passionate about growing our business, our brands and our reputation. I'll show you a bit on that at the moment.

Similar to what Chris was talking about on the next slide, we believe we have an advantaged portfolio and it's been changing in recent times. That snacks performance. We've got a CAGR of 5% over that period, but the snacks growing at 8% and cereal growing at 2%. We will anticipate that, that shape of relative growth is going to sustain itself going forward. So it's going to be very much more a snacks led growth.

If you go to the next slide, just talk about our track record, five years of sustained momentum in our growth. We are so proud of this. It's not just net sales but also operating profit growing. In many instances, as you can see on this slide, operating profit growing ahead of ourselves. So we've been very focused on how we think about margin in our business. So proud of that.

Let's go to the next slide and try and understand what are the keys to our success. I'd frame it up this way. We've talked already with Steve and Chris about the differentiated brands that we have. A lot of it we have in common, obviously in Europe, but we have some very distinctive assets as well. If I think about cereal, the power of Coco Pops, Crunchy Nut is our number 1 brand in the U.K. Tresor which recently started off as a Frosties innovation. It's now the number 1 continental European cereal brand, right? Phenomenal success story.

We've also been elevating our activation standards. This has been recognized across the region with improvements -- pretty impressive improvements in the advantage survey scores we have. We were number 1 in the U.K. recently, and we've made advances right across Continental Europe as well. I've talked about our distinctive culture, passionate about moving our business forward and thinking about the business that we can have, but also passionate about the role we can play supporting organizations like food banks, breakfast clubs, passionate about introversity [ph]. We've just from level 4 and above. In Europe, we've just moved to 50-50 gender parity in our business. If you look at the pipeline behind it, it's equally impressive.
All of this combining to give us very impressive reputational scores, RepTrak judges us number 2, the second most reputable food and beverage company in Europe currently. We’re proud of that. Speaking of pride, go to the next slide, Obviously we go to work to drive our business forward every day but it’s great when our work gets recognized, the work we’ve done with Pringles around gaming has been recognized by effie as best-in-class marketing (inaudible) we’re proud of that. Then the work we’re doing around ESG and our plans, we’ve had King Charles visit us only 3 weeks ago as a result of some of the work that we’re doing there. He was very curious about all of that. So that’s great. That’s who we are.

Let’s talk about who we’re going to be. Business is about the choices that we make and we have made our choices in Europe. We know exactly where we’re going in the future. We are going to be accelerating our snacks business, as I said, Snacks will be leading the growth for our region. We’re going to leverage the scale of those iconic and distinct cereal brand assets that we have. We’re also going to be investing -- you hear this right across our industry. We’re doing it to what is the right choices for us to make around how we digitize, how we power up data to become more end-to-end impressive and efficient both within ourselves and also in terms of how we connect with our customer base, our supplier base, all of that leading to transform -- sustain transform customer engagement.

And as I mentioned, embedding ESG into our strategy, what are the internal and external opportunities beyond hygiene factors for that in our business. Let’s double click into the snacks piece. We will be snacks-led. This year, our Pringles business in Europe will be over $1 billion in value and in sales. We are growing share. We’re growing penetration broadly across our region. So that is a phenomenal performance for -- how do we anticipate sustaining that? Let’s go to the next slide. And here’s a menu of just some of the things that we can be getting after. We’ve talked about the activation, the elevated standards but also channels, high-frequency stores, ecommerce away from home, hard discount. All of these remain growth opportunities for the Pringles business occasions, (inaudible) in Continental Europe, meal deals at lunchtime, all of these great opportunities.

On ESG, just see we had some examples in the breakfast room, 1 million paper tubes were made last week, as of last week, in our Belgium plant in Mechelen. We will be going live with a paper town now in Mechelen in Q2 of this year and then rolling out across Europe, U.K. next and then right across the regions as we go forward. So lots of great opportunities. The innovation that we’re bringing to the market is incremental to the category and is driving our share forward. But it’s not just Pringles. We have a great wholesome snacks business, and our host of snack business is ripe for growth by leaning into those distinctive assets like Pop-Tarts, Rice Krispies scores, we’ve generated strong double-digit consumption growth for the last two years.

These brands, which are only present in maybe the U.K. and Germany are opportunities for us to expand more broadly across the region. But also you heard Chris talk about some of the wonderful brands that we have in KNA, how about bringing those across the pond and exploring what opportunities they could represent for us. Some of that work is live and dynamic as I speak right now. So that’s our snacks business. Let’s go on to cereal.
Our cereal business provides us with more modest growth, but we have been growing this business -- even before the pandemic, we were growing the business in the U.K., we were growing our share in the U.K., right? I mean obviously we had a great surge through the pandemic, and we’re back in growth again. Remember, we have leading brand shares in our region in markets like Italy and markets like France, 40 [ph] or north, right? Then in the U.K., we’ve been growing our share. We’ve come up now into the early 30s, okay? So a very attractive business. It has great scale. Let’s go to the next slide. How will we frame up the hunting grounds for growth there.

Taste leadership. This category is so driven by taste. When you look at those assets, as I mentioned, Coco-Pops, Crunchy Nut and Tresor, these are great platforms for continued growth, continued innovation, continued activation. Then there’s the work we’re doing in well-being, and the Nutri-Score opportunities we have around our range this year in Continental Europe, we’ll have moved up to being Nutri-Score right across the region. We’re partner with the NBA. We just announced a tie-up to bring grass-roots level NBA to the continent. Fantastic activation opportunities for us to get around and then an ESG taking more air out of the box, helping our customers drive more efficiency, helping to plan it, all good. Okay.

So let’s also turn to margin. It’s not just about our top line growth. It’s the quality of the growth that we’re pursuing. Even as we work through the unusually high cost pressures that we’re experiencing in Europe today we’re continuing to work on ways to improve and seek out greater profitability in the long term. It’s beyond just operating leverage that we get from growing the business. We’re constantly looking for ways, as you can see here, be more cost efficient to digitize our plans, our processes and to design our products for value, and that’s right across the 3 categories that we operate in. We’ll also continue to leverage revenue growth management, not just in the areas of pricing, but also in the promotions we execute, the price architecture of our products, accretive innovation and then our mix and our channel market has been really intentional around all of that.

Let’s go to the last slide and summarize. We have sustained great momentum. We have a track record of balanced growth five years of it, right? Our growth will be led by snacks, increasingly, and we have a ton of opportunity to get after there, and we are asset-rich. We consider our portfolio, our capabilities and our culture to be great assets for us. And as you can see, we are laser-focused on improving the quality of that growth, improving our margins. With that, I’ll pass it over to Amit now to discuss our pending spin-off.

**Amit Banati** {BIO 16339861 <GO>}

Thank you, Dave. Good morning, everyone. As you know, we are working on our latest and boldest move yet to transform our portfolio, the spin-off of our North America cereal business. The rationale, as we’ve discussed before, is straightforward. One element is that by spinning off North America cereal, we are creating a company that is more focused and more agile. It will benefit from a singular focus on its own strategy and execution, its own prioritization of resources, it's fit for purpose supply chain and a streamlined structure that affords agility.
This will make it more competitive. This stand-alone company will pursue profit margin restoration through everything from a reimagined distribution network to modernize assets. This new company is being set up for success with an experienced management team, as we’ve already announced as well as a solid balance sheet and a transition service agreement designed to ensure business continuity. As we get closer to the spin-off date later this year, we’ll provide you with full details, including strategy, structure and financials. In the meantime, we’ll continue to report to you on the strong recovery both in sales, profit and margin that this business has already set off towards and that Chris had described earlier.

Then there’s the other side of the spin-off, what will remain is a global snacking oriented company whose above average growth in sales and profit will be more visible to all. This is the remaining 85% of Kellogg Company net sales, the global snacking Co., for which the portfolio is even more oriented towards growth, as you’ve just seen from examples in North America and Europe. In fact, as shown on slide number 47, these businesses collectively delivered 8% compound annual net sales growth over the last three years. About 80% of its sales comes from snacks and emerging markets, which consistently grow faster than the packaged food average. The other 20% are steady, growing high return on invested capital businesses.

There is no change to our international regions other than a small change in Latin America, so they can continue their track record of balanced growth. In North America, there will be just that much more focused of resources and of management time and attention. Slide number 48 shows how the business is comprising the global snacking Co. portfolio has already been delivering the bulk of the growth for the company. Roughly 60% of this company will be in snacks with the brands Pringles, CHEEZ-IT, Pop-Tarts and Rice Krispies representing almost 3/4 of the snack sales.

Given the growth of snack categories around the world, the strength of these brands and the international expansion opportunities available for these brands, this is a very strong foundation for long-term sustainable growth. Noodles & Others, our rapidly growing category in Africa, will represent more than 10% of our sales. Much has been made of having within our consolidated results of distributor business with its lower distributor margins. But that ignores the fact that, a, this business doesn’t cannibalize any of our full margin packaged food products, b, we don’t consolidate into our results, the full margin packaged food products of Dufil, one of our ventures that sells through Multipro; and see that Multipro is an enormous competitive advantage and driver of long-term growth. And hopefully, you had an opportunity this morning to see the range of products that go through Multipro in the display that we had at breakfast.

Our frozen food business is less than 10% of global snacking Co. sales and generate steady growth and a higher return on invested capital. International cereal representing about 20% of sales is more than half comprised of emerging markets with consistent growth. Put it all together, and you have an attractive growth portfolio that already exists and already thrive today.

In the meantime, we remain on track towards executing the spin-off by the end of this year as discussed on slide number 49. Considerable work is going into ensuring that this
work doesn’t distract us from delivering on our current business results. You saw that clearly in 2022, when we overdelivered on guidance and expectations throughout the year, and you saw that in the guidance that we gave for 2023 a couple of weeks ago. We are working to ensure that we are setting up both the companies for success.

I realize that you’re anxious to get your hands on the strategies and financial outlooks for these 2 businesses. That information will come as we work -- get through the work later this year. But you should gain confidence from the fact that we are working with Blue-Chip advisors with significant experience in spin-offs and that we have a dedicated project management team with detailed timelines and deliverables. This helps us evaluate and resolve every aspect in real time.

We are designing the optimal organization for a focused North America cereal company and prioritizing internal talent for placement into these roles. This will ensure institutional knowledge is preserved while also mitigating stranded costs. We will also establish a transition services agreement, which will ensure business continuity and help mitigate stranded margin for up to two years across a number of areas. We will set up capital structures that ensure financial flexibility for both companies. This includes debt as well as pension and postretirement plans. North America cereal Co. will have the flexibility it needs to pursue its strategies. The remaining global snacking Co. will stick to its intent on preserving an investment-grade credit rating.

So let’s summarize with slide number 50. There is no doubt that we are a stronger company today than we were just three years ago when we last got together in this room. Our strategy has proven its effectiveness. Our portfolio is clearly more oriented towards growth with our biggest, most profitable brands leading the way and with more exposure to snacks categories and emerging market geographies. We have greatly enhanced key capabilities, particularly in the areas of digital media, ecommerce, revenue growth management and ESG.

Our supply chain has been made more resilient, learning from the extreme conditions of the last few years and addressing important supply gaps and capacity constraints. And by improving our cash flow conversion and significantly reducing our debt leverage, we have improved our return on invested capital and boosted our financial flexibility. These have not only produced better than targeted financial results during these past three years, but they are lasting improvements that should sustain our momentum going forward. Add to that a value-enhancing separation of our company, and you can see why we are so confident that we are on the path for accelerated value creation.

Thank you for your attention this morning and for your interest in the Kellogg Company. And now I think we have some time for a couple of questions, and we’re happy to take that before heading back to the breakout session. Thank you.

Questions And Answers
Operator
Any questions?

**Q - Unidentified Participant**
Actually, a question for David Lawlor. You mentioned the white space of wholesome snacks in Europe, and we've been hearing about this white space for many years. I was wondering what are the obstacles that you face in trying to expand that segment of the business? Pringles has been a huge success. Does it require a different route to market than Pringles? Is that one of the challenges? And what -- how big can this -- how big is it now? And what do you think it could be?

**A - David Lawlor** {BIO 19926431 <GO>}
Okay. Can you hear me okay? Yes. Well the business is -- sorry, I'm getting a signal to move closer, I think yes. I would say the short answer to your question is it's our portfolio. I think we've tried to broaden it too much, and we've lost focus on where the real distinctive assets were. You think about a brand like Rice Krispies Treats as is called here, Rice Krispies Squares in the U.K., it's so distinct. It's so different. We have not been single-minded enough historically. You think about brands like Pop-Tarts, there's great interest in Pop-Tarts across the region. We've been trying that out in Germany most recently. I mean we think there is a significant opportunity. We're asking ourselves that squares is so successful in the U.K. how expandable is that brand. So just trying to understand what the right portfolio is, the Crunchy Nut food is a huge success in Italy. Our business in Italy is very big now.

So I think the short answer to where we're going to go to grow this is being very focused on which markets we'll play in and around which assets, which brand assets will support. The last two years have seen significant double-digit growth in this business. That's coming off the challenges of the pandemic. So we're very excited, and we think we have the proof points.

**Operator**

**Q - Jason English** {BIO 16418106 <GO>}
You mentioned your after business and the fact you don't yet consolidate the Dufil business into that. What is your optionality on taking that to a majority position in consolidating results so we can start talking about this as an integrated DSD business rather than simply a distributorship?

**A - Amit Banati** {BIO 16339861 <GO>}
Yes. Right now, we own 24.5% in Dufil. I think we're happy with our position right now. We're happy where having on-the-ground partner, right, has been a critical element of the success. So I think we're happy with where we are and the partnership that we have.
Michael?

Q - Michael Lavery  {BIO 20141239 <GO>}
I would just add also that while we are not consolidating Dufil, we have a cereal business in Nigeria. We have a snacks business in Nigeria. I think you would have seen Munch It earlier today. It’s a snack brand that we’ve launched. We’ve got Kellogg noodles in the rest of Africa. All of those are consolidated. So the benefits of that, the growth as well as the profit is going to flow through our P&L. It’s only Dufil, which is right now not consolidated.

This is a little bit of a follow-up to Rob’s question, but on the North America side, I think you’ve rightly pointed out, have differentiated some of these brands are. But then you also said now you’re looking for a bigger push behind brands like Nutri-Grain, Club and RXBAR. What does it need? What do you need to get that done? What are your visions for that? I mean how much should we expect more spending behind those? When you mentioned those as kind of a growth opportunity, what does that look like?

Christopher Hood, Kellogg Company - Senior VP & President of Kellogg North America 9

I mean we’ve actually been very successful on those brands already. They just happen to start from a smaller place, but over the past several years, all of those businesses have been growing quite nicely. So we think they’re on a trajectory to get to $0.5 billion or $1 billion over time. relative to brand building spend, the percentage of brand building spend that we spend on those brands, we think is adequate to do what we need to do, both to support new innovation and continue to build and sustain the equities. So I don’t think there -- you should expect any significant ramp-up in brand building spend to accelerate those businesses. We’ve got pretty good support behind them already, and they’ve already got great momentum.

Operator

Maybe time for one more.

Q - Kenneth Goldman  {BIO 3212413 <GO>}
With the understanding that today not the data really dig into numbers on the spin, I just wanted to get a general sense, Amit, you talked about maybe leaning in a little bit toward spending on the supply chain, spending on distribution opportunities. Is there any reason to think and if you can’t answer this today I understand, but is there any reason to think that the cash costs post spin as you sort of develop the supply chain a little bit more will be unusually large? Or do you generally expect the cash cost post spin to be typical and not out of line necessarily? I’m just trying to get a sense for what that comment meant about sort of investing in that supply chain and the opportunities you have there?

A - Amit Banati  {BIO 16339861 <GO>}
I think we’ll probably talk about that at great length later in the year when we’re ready to kind of talk the strategies for North America cereal Co.
Operator

Okay. Thank you very much. Thanks again to the Kellogg Company for sponsoring breakfast this morning. Thank you.