Company Name: Kellogg
Company Ticker: K US
Date: 2014-10-30
Event Description: Q3 2014 Earnings Call

Market Cap: 23,065.86
Current PX: 64.05
YTD Change($): +2.98
YTD Change(%): +4.880

Bloomberg Estimates - EPS
Current Quarter: 0.949
Current Year: 3.911
Bloomberg Estimates - Sales
Current Quarter: 3716.000
Current Year: 14816.313

Q3 2014 Earnings Call

Company Participants

- Simon D. Burton
- John A. Bryant
- Ronald L. Dissinger
- Alistair Hirst

Other Participants

- David H. Hayes
- Ken B. Goldman
- Andrew Lazar
- Robert B. Moskow
- Bryan D. Spillane
- David Cristopher Driscoll
- David S. Palmer
- Eric R. Katzman
- Jason M. English
- Diane R. Geissler
- Alexia Jane Howard
- John J. Baumgartner

MANAGEMENT DISCUSSION SECTION

Operator

Good morning. Welcome to the Kellogg Company Third Quarter 2014 Earnings Call. [Operator Instructions] After the speakers' remarks, there will be a question-and-answer period. [Operator Instructions] Thank you.

At this time, I will turn the call over to Simon Burton, Vice President of Investor Relations for Kellogg Company. Mr. Burton, you may begin your conference call.

Simon D. Burton

Thanks, Keith, and good morning, everyone. Thank you for joining us today for a review of our third quarter 2014 results. I'm joined by John Bryant, Chairman and CEO; Ron Dissinger, Chief Financial Officer; and Alistair Hirst, Senior VP of Supply Chain.

The press release and slides that support our remarks this morning are posted on our website at www.kelloggcompany.com. As you are aware, certain statements made today, such as projections for Kellogg Company's future performance including earnings per share, net sales, margin, operating profit, interest expense, tax rate, cash flow, brand building, up-front costs, investments, and inflation are forward-looking statements. Actual results could be materially different from those projected. For further information concerning factors that could cause these results to differ, please refer to the second slide of this presentation as well is to our public SEC filings.

As a reminder, a replay of today's conference call will be available by phone through Monday, November 3, and the call will be also be available via webcast, which will be archived for at least 90 days.

And now, I'll turn it over to John.

John A. Bryant

Thanks, Simon, and thank you, everyone, for joining us. Today, we announced third quarter earnings per share that were ahead of our expectations. In addition, our results for operating profit were greater than we had anticipated and sales were slightly below. As we mentioned at the Back-to-School conference last month, we continue to face headwinds in developed markets and categories, although we saw good sales growth in Latin America and Asia Pacific in the quarter. Also, as we highlighted at the conference, we have some exciting ideas for innovation and brand building in 2015.

As a result of our third quarter performance being mostly as we had expected, we are maintaining our guidance for the full year. Ron will provide more color on guidance later, but we continue to expect that for the full year, internal net sales will be down between 1% and 2%. Underlying internal operating profit will be down between 1% and 3%. And currency-neutral comparable earnings per share will be between up 1% and down 1%.

Also, as you can see highlighted on the slide, we continue to make progress on Project K, our four year efficiency and effectiveness program. In the third quarter, we opened our North American service center as part of the Global Business Services initiative. We also announced the closure of our snack plant in Columbus, Georgia and the reduction of production at our Manchester, UK plant. We are very pleased with the progress we have made so far and Alistair will give more detail regarding the Supply Chain organization and Project K in a few minutes.

Now, let's turn to Slide 4 and a brief discussion of some of the things we are working on for 2015. We've spoken to you over the last year about some of the challenges that were faced in developed categories and regions, particularly with our weight management brands. And we've also told you how we've begun to tailor our R&D efforts and support to better address consumer trends.

Specifically, we have been working hard on Special K globally and on Kashi in the U.S. In the U.S., this includes innovation like: Kashi GOLEAN Crunch, which is non-GMO verified; Bear Naked Granola; Kashi Organic Promise Sprouted Grains and Raisin Chia Granola; and it also includes Special K Gluten-Free and Special K Protein. In fact, in the U.S., we are completely redesigning Special K and are relaunching it as a healthy lifestyle brand across our categories. And we're also relaunching the brand in other regions around the world. I'll talk more about this later. And we've got a lot more planned, too, just some of which you can see on the slide.

You'll also see some of the border brand building initiatives that we have planned for early in 2015 detailed on the chart. In the U.S., these plans include the Give a Child a Breakfast program and the Kellogg's Open for Breakfast program. Slide 5 shows specific detail regarding our Breakfast for Better Days program. We believe that eating breakfast leads to better days and better lives. As a result, we have focused our global philanthropic efforts on providing breakfast for those who need it most. As part of the program, we will donate 1 billion servings of cereal and snacks by the end of 2016 to children and families in need worldwide.

To increase the impact of this program, we are also engaged in campaigns that provide support for breakfast programs when consumers purchase Kellogg's cereal. In 2015, we will run this program in 15 countries. Our company is built on a history of caring about these issues and we know that consumers, particularly Millennials, share these values.

And now, I'll turn it over to Ron for a discussion of our financial performance.

Ronald L. Dissinger

Thanks, John, and good morning. Slide 6 shows the financial results for the third quarter. Internal sales declined by 1.7%, approximately equal to last quarter's performance and slightly below our expectations. As John mentioned, we saw good growth in both Latin America and Asia Pacific, but sales in our U.S. Morning Foods and our U.S. Snacks businesses were below expectations.

Underlying internal operating profit decreased by 1.8%. This was better than our expectations. We managed our overhead investment lower and reduced incentive compensation to align with performance. While we increased brand building in our developed Cereal businesses, overall brand building was slightly lower year-over-year, but comparable as a percent of sales. Comparable earnings per share, which exclude integration costs, mark-to-market adjustments and Project K costs, were $0.94 per share in the quarter. This result included a negative $0.01 per share impact from a higher tax rate. Currency translation had no impact on earnings year-over-year.

Reported earnings per share for the quarter was $0.62, including $0.02 of Pringle's integration costs, $0.19 of upfront costs related to Project K, and an $0.11 impact from mark-to-market adjustments.

Slide 7 shows the composition of the third quarter sales growth. Total internal sales declined by 1.7% and total price and mix improved by 0.2%. Both Latin America and Asia Pacific posted gains.

Volume decreased by 1.9% in the quarter. This decline was the result of the performance of our developed Cereal businesses around the world and the performance of the U.S. Snacks business. We do continue to see good volume growth in our International Snack businesses and in our Cereal business in Asia. Finally, currency translation impacted reported sales growth by a negative 0.4% in the quarter, primarily as the result of the euro and the Canadian dollar.

Slide 8 shows our underlying reported gross profit and gross margin for the quarter. Our underlying gross margin decreased by 20 basis points in the quarter and was impacted by fixed cost absorption due to the lower volume in our network. We also saw a bit more inflation in cost of goods sold related to distribution costs. Our savings from productivity were in line with expectations.

We're essentially covered on commodity and packaging for the remainder of the year and we have taken some coverage on commodities and packaging for next year. We'll give you guidance for 2015 on the fourth quarter conference call, but material-related inflation for next year currently looks to be relatively benign.

Slide 9 shows the quarterly internal operating profit performance for each of the regions. North America's internal operating profit decreased by 9%. This was driven by lower sales performance, particularly in the Cereal and Snacks businesses. In addition, capacity issues at a co-packer had an impact on the sales and profitability of our Specialty business.

Investment in brand building as a percent of sales was unchanged in North America in the third quarter, although we did increase our investment in cereal at a high single digit rate. We expect improvement in operating profit performance in the fourth quarter in North America, although we continue to expect that operating profit will be down for the year.

Internal operating profit in Europe increased by 4% in the quarter. And this growth was primarily driven by lower input inflation as well as productivity savings in cost of goods sold.

Internal operating profit grew by 20% in Latin America. Top-line growth of more than 7% drove the result. In addition to growth in operating profit included a double-digit increase in brand building in the period. And we saw an increase in internal operating profit of 5% in the Asia Pacific region in the quarter. This was driven by solid top-line growth and strong productivity and cost of goods sold and the results also included an increase in investments in brand building.

Slide 10 shows year-to-date cash flow through the third quarter. Cash flow from operations was $1.18 billion, on track with our expectations for the year. And we still expect cash flow from operations, after capital spending, to be at the low end of our range between $1 billion and $1.1 billion. Cash flow through the third quarter was below last year's level primarily, due to the cash required for Project K.

We continue to make good progress on our accounts payable initiative and expect it to improve annual cash flow by around $200 million this year.

Capital spending was $355 million so far this year. And our expectation is that capital spending for the full year will be between 4% and 5% of sales, including investment for Pringles, Project K, and a new plant in India. And finally, share repurchases through the third quarter were $690 million. Now, it's worth noting that we have returned approximately $1 billion to shareowners so far this year. We continue to expect that we'll reduce our average share count by approximately 1.5% over the full year.

Now, let's turn to Slide 11 and our guidance for 2014. As always, this guidance excludes items that affect comparability. And please see our notes for details. It's important to know that our currency-neutral guidance remains consistent with our prior outlook. Currency was previously expected to provide a $0.03 benefit to earnings per share. And we now expect it to be neutral for the year. As John mentioned, we continue to expect that internal net sales will be down between 1% and 2% for the full year.

Total cost of goods inflation is expected to be near the high end of our 3% to 4% range, but we still expect that productivity and savings from Project K will more than offset the inflation. This should lead to moderate net deflation for the year. And we now expect that underlying reported gross margin will be flat to down slightly for the full year, including higher distribution costs and lower volume through our manufacturing plants.

We continue to expect that underlying internal operating profit will be in a range between down 1% and down 3%. And we continue to expect that currency-neutral comparable earnings will be in a range between down 1% and up 1%, or $3.81 to $3.89 per share. We still expect that the 53rd week will add approximately $0.07 per share. And, as I mentioned earlier, currency will now have no year-over-year impact. This should result in an earnings per share, including the 53rd, week of $3.88 to $3.96. The tax rate is expected to be approximately 29% and interest expense is now anticipated to be approximately $210 million. And, as I mentioned earlier, we continue to anticipate that cash flow will be at the low end of the range between $1 billion and $1.1 billion. And we still expect capital spending to be between 4% and 5% of sales.

The only change to the earnings per share walk on Slide 12 is the outlook for the impact of currencies. Note that this outlook still excludes any potential impact from a devaluation of the Venezuelan bolivar. Our estimates for integration costs have not changed and are still between $0.07 and $0.09 per share. Project K costs are expected to be in the range of $0.60 to $0.65 per share.

And now, I'll turn it over to Alistair for some comments on supply chain and Project K before John discusses the operating segments.

Alistair Hirst

Thank you, Ron, and good morning, everyone. Slide 14 details the vision we have for the Supply Chain organization and is one that I showed you last year. We have a great supply chain team here at Kellogg and we are committed to delivering high-quality food, while developing a supply chain that creates the best value for lowest cost.

And we have made some significant changes to the organization over the last three years. I'll talk more about that in a minute, but some of the improvements we've made and the processes we've implemented, combined with the Project K initiative, will allow this to continue to reach our goals and provide flexibility to the broader organization. In fact, we continuously strive to be a strong, stable foundation from which the company can grow.

Now, let's turn to Slide 15 and a few details regarding the initiatives underway in the organization. First, we are aligning the network to better reflect the current state of the business and to anticipate future demands. A lot of work has been done and a lot of work is underway to build the Supply Chain of the Future. We have also done a lot of work to better organize the structure of supply chain. This has involved changes designed to improve the efficiency and effectiveness of both our processes and production. And finally, we have made a significant amount of progress implementing our Global Business Services initiative, so let's take a look at each in a little more detail.

First, let's look at Slide 16 and some more detail regarding the alignment of the supply chain network. We are a year into Project K and we have announced a number of changes to the network. And we are on plan in all four regions. We are targeting having the right number of plants and the right amount of capacity within those plants in each of the businesses. As I said, we must create the Supply Chain of the Future, one that anticipates the needs of the business in the years to come.

In North America, we've announced consolidation in both our cereal and snack networks and we are executing the relocation of production according to plan. In Europe, we've announced the reduction of capacity at cereal plants in the UK and we've also successfully begun producing Pringles in Poland at our new snack facility in Kutno. We are particularly proud of our teams in Europe and Kutno for bringing this plant online and the vertical start-up between the production of the first chip on June 13 and the completion of the first shippable case on June 28. And this plant has already produced well over 15 million cans of Pringles and has 80% utilization.

In Latin America, we have successfully completed a restructuring of the supply chain and have successful executed a decoupling strategy between the Mexican and Guatemalan businesses. This means that we now ship both product to Guatemala [ph] where there's package demand. (17:15)

And in Asia Pacific, we've announced the construction of a Pringles plant in Malaysia and increasing capacity at a snacks plant in Thailand and construction of a cereal plant in India, each of which will supply product to the Asia Pacific region. And, again, all of this has been done to plan and on budget. As you can tell, there's a lot of work underway and we're continuing to review the network for further opportunities.

Slide 17 shows a few specifics regarding changes to the structure of the Supply Chain organization. We have standardized processes and streamlined the organization. First, we have invested a significant amount of resource in the development of both people and processes in what we call Design to Value. This is just what you'd imagine. It's coordination across insights, marketing, research and development and supply chain to take an idea and get the design of the food and packaging right and to give the consumer what they're willing to pay for. And, as importantly, it's also about getting the economics of the design right at the same time.

The second part of the process is what we call Produce to Design. Producing exactly what was envisioned in the development process is very important for the success of the food and also for the economics of the introduction. And it has a meaningful impact on the quality of the food we produce, so we've also invested a significant amount of time on improving this process. And we've done this while also reducing corporate supply chain overhead.

Now, let's turn to Slide 18 and the final piece of Project K and some of the additional changes we've made to supply chain. We have made great progress in the implementation of the Global Business Services initiative, or GBS. This initiative will focus on four functions, with the first being the finance function. We have announced two regional hubs. One is in Michigan for North America and the other is in Bucharest for Europe. As GBS is a three-tiered model, a smaller amount of the company's functional work will continue to be done in the business units and the remainder will be done at the Global Service Center.

The North America center opened in the third quarter of this year and the European center will open next year. In addition, other parts of GBS are having a positive impact, too, although it's early in the process. In Source-to-Pay, we are focused on global analysis in the procurement function, which has made the process more efficient and effective. We've also been driving the efficiency of our demand planning activities. This is simply a means of improving our forecast accuracy, which will lead to lower inventory, less waste, lower logistics cost, better fill rate and increased efficiency. And it will also support our plans to drive sustainability, as I will discuss in a minute. And our Transportation group is working on increasing the efficiency of our network and we're seeing meaningful savings, which are helping us to mitigate the cost inflation that Ron just previously mentioned.

And now, if you'll turn to Slide 19, you'll see the timeline detailing areas of focus for the organization. In 2012, we focused on the fundamentals and saw a lot of success. In 2014, we are continuing to focus on the Right to Win. This includes the implementation of Kellogg Work Systems, or KWS. KWS is a proven model that promotes employee engagement and drives increased efficiency, including lower rates of waste. And KWS, along with other initiatives, has helped us build a stable manufacturing network. This, in turn, has provided a base for increased productivity in the Supply Chain organization and in other areas of the business. I'll talk about some of the successes we've had in a minute.

And finally, is the Right to Lead. Some of the activities that I've already mentioned will contribute to the creation of truly end-to-end supply chain solutions over the next couple of years. This important next step will be our focus in both 2015 and 2016. As I told you last year, we want be dependable but agile. And we must drive profitable sales growth. And, most importantly, we must do all this while maintaining the safety of our food and our people.

As I mentioned earlier, Slide 20 shows detail regarding some of the successes we've had as we have executed the Right to Win initiatives. We've seen good performance on safety rates over recent years, as the Total Recordable Incident Rate has remained low. Our history of driving cost savings through productivity has been very good, with us meeting or exceeding our target of 3% to 4% annual savings in recent years. And on food safety, we've seen a measurable improvement. Obviously, each of these areas remains very important to us. They represent a continuous process and we believe that the great work we've done over the past few years can continue and that our performance can actually improve even more.

And finally, before we reach the summary, let's turn to Slide 21 and our commitments to sustainability. As you know, we view improvement in this area as a continuous journey and it is one to which we are strongly committed. We understand that our consumers are concerned about the environment, where their food comes from and how it is grown, as are we. Sustainability has been part of the company for more than 100 years and we recently announced commitments for global sustainability that we plan to achieve by 2020. We are focusing on supporting the livelihoods of the farmers, growers and suppliers that rely on us, on whom we depend.

And, in addition, we are building upon the environmental commitments we announced in 2008, as we work to further conserve natural resources where we source and produce our foods. Of course, these are the right things to do for our suppliers, our employees, our customers and our consumers, but they are also the things to do for the health of the business, because they help created cost savings and increase productivity.

So let's turn now to Slide 22 and my summary. The Supply Chain organization has come a long way in recent years. We have increased our performance when measured by a number of metrics. And, most importantly, we have built a solid and dependable base, which can enable future growth and profitability. We have started to realign the network to provide a footprint that will serve the future Kellogg. We've invested in improving the whole supply chain from design to production. We've seen significant improvement already and expect more as we develop these initiatives over the next couple of years. And we're driving increased effectiveness and efficiency through the implementation of GBS.

Project K, the evolution of the supply chain, the savings we get and the reinvestment are all a process. We are on a four year journey. It is going well so far and we're optimistic regarding our ability to drive it further in the years to come. And we remain confident that the flexibility we're developing will drive future profitable growth.

And now, I'd like to end by thanking all the employees of the Supply Chain organization globally for all their hard work. The process isn't an easy one, but they are executing with excellence.

And now, I'll turn it back over to John.

John A. Bryant

Thanks, Alistair. Now, let's turn to Slide 23 and some specifics regarding the Morning Foods business. As you can see, internal net sales declined by 4.7% in the quarter. We started our category building programs in the second quarter in the U.S. and in the third quarter in the UK and Australia. In the U.S., it's fair to say that, while we saw some improvement in our consumption trends in general and in Q2 in particular, we saw less improvement than we had hoped. We are continuing our media investment in the fourth quarter. And, as I mentioned earlier, we have more initiatives planned for early 2015 and more to come later in the year.

Remember that this is an ongoing initiative. We've got some exciting ideas planned. We remain confident that the category will return to growth over time. Specifically, in the third quarter, Special K and Kashi accounted for all of our decline in category share. So on Special K, we are changing the positioning of the brand by focus on dieting to weight wellness. This focus will stress the role that Special K can play in a healthy lifestyle.

We are reinventing all aspects of the Special K brand in 2015. This will include innovation, packaging, advertising and consumer promotions. And each of these changes will highlight Special K's position as part of a weight wellness program. We have new packaging and advertising that highlight the simplicity and goodness of the food. We have consumer promotions that will help people meet their goals and we have innovations, including Special K Protein and Special K Gluten-Free that will directly appeal to consumer trends.

And we're also extending the innovations beyond the traditional cereal category with more hot cereals planned. Also, the relaunch of Special K goes beyond cereal and captures all the elements of the brand in the U.S., including Special K cracker chips and Special K bars.

We also have plans for Kashi. This is a great brand in a category that is on-trend and we need to lead more with both the Kashi and the Bear Naked brands. We're completing the renovation of the GOLEAN brand to make it certified GMO-free. We're converting the Heart to Heart brand to USDA Organic. And we're targeting more progressive nutrition innovation, such as sprouted grains, chia granola and others. On Bear Naked, we're experimenting with new blends of granola and we've also got some great new Bear Naked bars.

As you know, David Denholm and his team are just getting started on the transition of Kashi and Bare Naked. And we know that making structural improvements is not a quick fix. However, we're making the right decisions and we expect that these great brands will return to growth over time.

And finally, for Morning Foods, consumption in our Pop-Tarts business declined in the quarter, due to difficult comparisons resulting from the introduction of Peanut Butter Pop-Tarts last year and the timing of introductions this year. We've got a new PB&J variety planned for introduction in November and believe that this business will return to growth.

So we are making progress with our plans for the Cereal business and for driving category growth over the longer-term. We're addressing the issues we face and the team is doing a lot of work on both innovation and brand building. As I mentioned earlier, we realize that there is no quick fix in this business and we're confident that we'll start to see improvement as we progress through next year.

Now, let's turn to Slide 24 and take a closer look at our cereal plans for 2015. This slide is similar to one that Paul Norman showed you at the Back-to-School conference and highlights the actions we will take to drive improvement in the cereal category in developed markets. First of all, consumer trends are continually evolving and we have to better appeal to changing views on health and wellness. This means meeting the changing needs of consumers and more quickly addressing the trends that result. For example, you can see on the chart Kashi Organic Promise Sprouted Grains and Kashi Raisin and Chia Granola. These new products, along with high-protein Special K and gluten-free Special K are a first step in the right direction.

Next, we must continue to offer better convenience through the use of new packaging ideas, the development of new foods and entry into adjacencies like breakfast drinks. Next, as I mentioned earlier, we must engage more with consumers on the issues that they care most about, as we're doing with our Breakfast for Better Days programs and our Open for Breakfast platform.

And finally, we have to drive better impact through the Path to Purchase. This means having excellent sales fundamentals and great in-store execution. It also means adding fun back into the box and driving bigger events and more in-store theater. These are our four main areas of focus as we head into next year.

Now, let's look at Slide 25 and our U.S. Snacks business. Internal net sales declined by 4.2% in the third quarter. It's important to note this performance was driven by weakness in weight management products as it was in the Cereal business. In fact, Special K bars, Special K cracker chips and Right Bites 100 calorie cookie packs accounted for essentially all of the quarterly sales decline posted in this segment.

We gained 0.3 of a point of share in the cracker category in the quarter. The Cheez-It brand posted consumption growth of 2.9%. Town House posted growth of 4.9% and Club posted growth of 6.5%, all significantly better than the category's performance. Cheez-It Grooves has gained more than a point of share since it was launched earlier this year and the original versions of both the Town House and Club brands continue to post good results, due to brand building support and good sales execution.

We lost share in the cookie category in the quarter, although, as I mentioned, Chips Deluxe and Fudge Shoppe posted good growth in consumption, aided by Chips Deluxe products co-branded with M&Ms and by the Fudge Shoppe pantry packs. Our cookie business was again most affected by the consumption of Right Bites 100 calorie packs. Consumption declined at an accelerated rate and accounted for more than half of Kellogg's share loss in the quarter. We again saw the effect of reductions in the number of SKUs [ph] in the tail that (3:36) we told you about last quarter. And we expect this impact will continue for the balance of this year and into early next year.

Consumption in the wholesome snack category declined by almost 2% in the period and Kellogg lost share. Within that, though, Nutri-Grain posted a slight gain in category share and Rice Krispies Treats posted a double digit increase in consumption and gained 0.8 of a point of share. The strong performance of Rice Krispies was aided by good core growth and the launch of new Rice Krispies Treat Blasted.

Kellogg's overall share loss was driven by declines in the consumption of both Special K bars and FiberPlus bars. The issues with these brands are similar to the ones we've seen in the cereal category. To address these issues, we have new products and activity planned for introduction in the fourth quarter and in 2015. For example, we're launching new, differentiated Special K bars and new Special K cracker chips and we're completely relaunching the brand in early 2015.

The Pringles business posted net sales growth of approximately 7% in the quarter, with good results in non-measured channels. Growth was driven by the Pringles core can, Grab & Go and the new Tortilla Pringles. We have got activity planned for both the fourth quarter and the first quarter of next year and are optimistic regarding the future growth of this great brand in the U.S. and around the world.

Obviously, we aren't happy with the performance of our Snack business. Pringles, the Cracker business and the core Cookie business are performing well, although we've continued to see under-performance in some areas and in the Wholesome Snack business specifically. We're increasing investment in our Snack business and are developing plans to drive improvement as we get into 2015.

Now, let's turn to Slide 26 and the U.S. Specialty segment. Internal net sales decreased by 4.1% in the quarter. This was driven by capacity issues in a co-packer and an inventory de-load as a customer shifted from warehouse to direct delivery. It is important to note that these issues are now behind us, although they had a significant impact on results for the quarter. Excluding them, we saw a net sales growth, driven, in part, by good results in innovation.

Elsewhere in the business, we saw a strong response to innovation in the K-12 school business in foodservice as we've introduced whole grain Rice Krispies Treats, new toaster pastries, new Cheez-It crackers and Eagle Popped chips for the Back-to-School period. We've done well in Cereal and Snacks and have gained share in the Waffle, Pancake and Toaster Pastry segments.

In the Convenience business, we achieved share growth in Hot Cereal, Salty Snack and Cracker segments. Kellogg posted double digit consumption growth in the Salty Snack category, to rate more than twice that of the category leader. And we again saw a decline in sales in the Custom segment as we exited some less profitable businesses.

Overall, results in the Specialty Channels business was disappointing in the third quarter and were the result of the issues I mentioned. Our expectation is for better results in the fourth quarter.

Slide 27 shows the performance of the North America Other segment, which includes the U.S. Frozen Foods and Canadian businesses. Overall, this segment posted an internal sales decline of 1.1% in the quarter. The Frozen Foods business posted a slight decline in internal net sales in the quarter, although volumes increased at a low single digit rate.

And that solid performance was a result of mix and costs associated with the launch of new products. New Eggo Bites continued0 to do well in the quarter and we just began the launch of new Eggo handheld sandwiches in September. Obviously, it's still very early, but initial indications are that it's being well received. We were also excited to be relaunching the Leggo My Eggo brand building program in the fourth quarter as well.

Net sales also declined slightly in the Canadian business in the quarter, although we saw good results in the Frozen Food business and the Snack business. In addition, the consumption of Pringles increased at a double digit rate in the latest quarterly data as the launch of Tortilla Pringles has also gone very well in Canada.

In 2014, in Canada, where we executed our Cereal and Milk program well, we saw a good response. And we have a heightened focus on protein with both Special K cereal and handheld sandwiches planned for 2015. In addition, we've got new activity planned for All-Bran, Froot Loops, and Frosted Flakes. And we've got other innovations scheduled for launch, including Kashi cereal and snacks.

Let's turn to Slide 28 and our European business. Internal net sales in the region declined by 0.6% in the third quarter. The Snacks business performed well, largely due to good results in Pringles, which was offset by declines in the Cereal business. The performance posted by individual countries was largely as expected, except for a shortfall in Germany driven by changes to the promotional schedule. The most significant challenge in the region remains the performance of the Special K brand. As we mentioned earlier, we have initiatives intended to address this performance planned for 2015, including new communication, an upgrade to the food, improvement in packaging, and better promotional activities.

In the UK, our cereal programs are showing early signs of success. [ph] The parent brand, Origins Program and the Back-to-School themed program (36:19) both achieved good retail support and execution. In addition, we are making progress in the rollout of [ph] breakfast stations, which include cereal counts. (36:28) Offsetting this growth was the continuing deflationary environment in the UK. As a result, we are focused on improving both mix and the effectiveness of promotions.

And finally, for the European business, the Pringles business posted mid-single digit net sales growth in the third quarter. This continued strong performance was driven by a focus on improving availability, visibility, and awareness. Investment in brand building for Pringles increased at a double digit rate. And we saw good results from the [ph] summer speaker can promotion (36:59) and outstanding execution at retail. Growth was broad-based across all markets.

Slide 29 shows the performance of our Latin American business. We posted 7.3% net sales growth in the quarter. This was the result of growth in Venezuela, Mexico, [indiscernible] (37:19) and the Pringles business. The Cereal business in Latin America posted good results in the third quarter, although we saw some competitive price promotions in Mexico, which affected the Chocolate and [ph] All Family (37:31) segments later in the period. We saw some share gains in Q2 in the Colombian and Venezuelan businesses. And in Mexico, we are implementing [ph] parent brand programs (37:40) supporting the relaunch of Choco Krispies and All-Bran and are beginning a nutrition-related initiative. The underlying momentum of the Pringles business continues, driven by strong commercial programs, innovation, and good execution. And the Wholesome Snack business is driving share growth, despite a slowdown in the category in Mexico [ph] for the region. (38:00)

We expect continued good sales growth in Latin America in the fourth quarter. And we will again increase investment in brand building at a double digit rate. We have [ph] granola and muesli launching in parts of (38:12) the region in the fourth quarter. We have [ph] parent brand programs (38:14) continuing as well. And we have a lot more activity scheduled to begin in the first quarter of 2015.

Now, let's turn to Slide 30 and our Asia Pacific business. Asia Pacific posted strong results in the third quarter. Net sales increased by 5%. Both the Asian and Pringles business posted double digit net sales growth in the quarter. Net sales in Australia declined in the quarter, although this represented a sequential improvement from the results posted in the first half of the year. Performance in the third quarter benefited from the timing of promotions, innovation and the Breakfast for Better Days current brand activity. Consumption in the Cereal category in Australia, however, continued to be under pressure during the period. The sales decline in Australia was more than offset by the double digit growth in the Asian and Pringles businesses. Net sales in India increased at a double digit rate and the business appears to have rebounded from the macroeconomic-driven weakness we saw earlier in the year.

In addition, the Japanese business also posted double digit net sales growth, driven by the continued strong performance of Granola. So we had a good quarter in the Asia Pacific region. And we're optimistic regarding the potential of this business as we enter 2015.

So finally, let's turn to Slide 31 and a summary. The third quarter's earnings per share and operating profit were ahead of our expectations. And we're maintaining our guidance for the full year. And we're also making the right calls in a difficult environment. We are seeing strong growth from our acquisition of Pringles. We continue to execute Project K well, which will provide us with the fuel we need for growth over the next few years. We have invested in the U.S. Sales organization in both warehouse and DSD networks. And we continue to invest in creating food that is on-trend and we will continue to invest in our great brands over time.

We know that these are the right actions, although we also know that sustainable improvement will take time. It is our Kellogg employees who are making a difference every day. They are driving the efficiencies, generating the ideas and executing the plans necessary for improvement in the years to come. So, as always, I'd like to end by thanking them for all their hard work.

And with that, I'll open it up for questions.

Q&A

Operator

Thank you. We will now begin the question-and-answer session. [Operator Instructions] And the first question comes from David Hayes with Nomura.

<Q - David H. Hayes>: Good morning, gentlemen, and thanks for the question. I'll just keep it to just one question as requested. Say, just on A&P spend, obviously, you talked about A&P at group level, I think, being slightly down year-on-year in the quarter. I was wondering whether you could be more a little bit more specific about the extent of what is slightly down. And then tying that into the Morning Foods category, I wonder if you could be more specific about the A&P profile in the quarter in that category. And I guess the reason I'm driving into that is because of the change of management, with Paul coming across and then the Kashi managerial changes as well, I wonder whether there was a delay to some extent in that brand communication support and that you catch that up in the fourth quarter. Which then leads to the question does the fourth quarter see an uplift year-on-year on the A&P spend? Thank you very much.

<A - Ronald L. Dissinger>: Good morning, David. It's Ron. Yes, in terms of our A&P spend year-over-year, our brand building essentially was down in line with the decline in sales, so what I said in the prepared remarks was that, as a percentage to sales, our brand building was comparable year-over-year, so a little less than two points of decline. Now, specifically in Morning Foods, we increased our A&P at a high single digit rate, so we invested behind the category building programs that we intended to invest behind in the quarter.

<Q - David H. Hayes>: Okay. Thank you.

<A - Ronald L. Dissinger>: Welcome.

Operator

Thank you. And the next question comes from Ken Goldman with JPMorgan.

<Q - Ken B. Goldman>: Hey, good morning, everyone. Are there any indications, from your perspective, that the heavy promotional environment we've seen across food is abating at all? I was at a Kroger store tour yesterday. I can't recall ever seeing so many yellow sales signs up at the same time. So I'm guessing not, but I'm just hoping to pick your brain a little bit on whether there's any light at the end of the tunnel here?

<A - John A. Bryant>: Yeah, Ken, as I look at the categories that we operate in, we operate in categories that are always intensely competitive, but I don't think we're seeing a big increase in the promotional activity within the categories in which we operate. However, I think there are a number of other categories in the food area that have been seeking more merchandising support and that is providing broader competition for the same amount of real estate in-store. And so, as a result, I think we are seeing a little less performance than we'd like to see from our merchandising activity in-store.

<Q - Ken B. Goldman>: And as you talk to – just to follow-up, as you talk to your customers about that – and again, maybe it's not your category so it's harder to see, but is there any indication that things get better from here or just more of the same as we go, given the struggles across center store?

<A - John A. Bryant>: Ken, I think everyone is seeking growth in the U.S. and I expect the pressure to continue to be there on merchandising. Our solution to that is to invest back into our Sales organization and take more of that future in our own hands. We're doing that by investing back in our DSD organization issue, adding additional reps and reintroducing the warehouse reps on the cereal side, which will probably have more of an impact in 2015 than in 2014. But ultimately, we realize that we have a responsibility to create that entertainment in-store as well as working with our retail partners.

<Q - Ken B. Goldman>: Okay. Thanks, John.

<A - John A. Bryant>: Thank you, Ken.

Operator

Thank you. And the next question comes from Andrew Lazar with Barclays.

<Q - Andrew Lazar>: Good morning, everyone. John, you've used the words this morning no quick fix on the cereal side several times and that's certainly consistent with your previous comments as well. And you're certainly not ready to go into detail on 2015 yet, but I guess in the spirit of your comments, it would seem like our expectation ought to be that the ramped up savings that start to come from Project K next year are likely needed for reinvestment rather than, let's say, a whole bunch of it dropping to the bottom-line next year, particularly given all the new items you have coming in 2015. Would you say that's more directionally a fair comment at this stage?

<A - John A. Bryant>: Yeah, Andrew, as you say, I'd rather not give 2015 guidance until we get to the fourth quarter conference call. If I sit back and look at our company, the key thing that we need to do is to return the company to top-line growth. Our sales are down 1% to 2% this year on an internal basis. Quite frankly, in the current environment, we only need sales growth of plus 1% to 2% to make our economic algorithm work. And so we are focused on doing that. And Project K is big enabler to enable us to invest back in the business, whether it be: back into our Sales organization in the U.S.; back into improving our food, so it's even more on-trend with changing consumer views of health and wellness; and investing back in brand building, although recognizing that we have $1.5 billion of brand building already, so we have quite a bit of fuel in the engine. So I appreciate the question, but I'll defer until the fourth quarter call to give more specific guidance on 2015.

<Q - Andrew Lazar>: Sounds good. Thank you.

<A - John A. Bryant>: Thank you.

Operator

Thank you. And the next question comes from Robert Moskow with Credit Suisse.

<Q - Robert B. Moskow>: Hi. Thank you. I guess my major concern about the cereal category, and I guess other carb snacks in the portfolio, is consistent with what you've said John, is that consumers' attitudes towards carbs and the mix of carbs in their diet is changing against you. And it just seems like every dietitian, nutritionist, and athlete is talking about reducing carbs. So I guess I'm asking is it unrealistic to assume that the cereal category and you have the resources to change those attitudes or at least educate people on balance between carbs and protein? There's nothing evil about carbs. But with all of these experts saying one thing, what can the cereal category due to kind of – to change that?

<A - John A. Bryant>: Well, Robert, I think if you step back and look at the food industry, there's a lot of fads and trends that go through the food industry at any point in time. Clearly, some of those items out there right now are not helpful to the cereal category, whether it be carbs or gluten-free or some of the other ones that are out there. What we need to do is to continue to provide foods that are more on-trend with some of those beliefs, and also to communicate to people some of the great benefits that our foods have. Our foods are very simple. A Corn Flake is literally a corn [ph] kernel (47:26) that's been rolled and toasted. A Rice Krispie is literally a rice berry that's been puffed.

Talk about the simplicity of the foods, talk about the healthy elements of the food, whether it be fiber or whole grain, et cetera. So I think we have an opportunity to talk about the benefits of the food more, alter the foods that have been more online with some of those changing trends, and to continue to work to help consumers understand the benefits of the food. So I don't believe it is beyond our ability to improve in the current environment. I would say that I'd be cautious on the speed of that improvement as we look out into 2015.

<Q - Robert B. Moskow>: Okay, makes sense. Thank you.

<A - John A. Bryant>: Thank you.

Operator

Thank you. And the next question comes from Bryan Spillane with Bank of America.

<Q - Bryan D. Spillane>: Hi. Good morning.

<A - Ronald L. Dissinger>: Good morning.

<A - John A. Bryant>: Good morning, Bryan.

<Q - Bryan D. Spillane>: I've got a question about just gross margins and gross profits and I guess really two parts to it. One is, could you give us some sort of context around how much volume deleveraging right now is weighing down on gross profits and gross margins? Trying to just get a sense for how that's affecting the base and as you improve volume growth, what type of leverage there may be on that. And the second part is just, looking out over the next few years as you get through the supply chain improvements that you're making, is there a sense that gross margins can get back into kind of the low 40s levels where they had been historically or is there something else that might impede that ability to get gross margins back up to closer to historical levels? Thank you.

<A - Ronald L. Dissinger>: Sure, Bryan. It's Ron. So in terms of our gross margin expectations, we've said when we launched Project K, that the initiatives we would undertake in association with Project K could improve our gross margins by about 150 basis points over that four year period. And we still believe that. Obviously, there are a number of other things that could impact us over that four year period, including significant commodity inflation, not suggesting that that's going to occur, but obviously that's a factor. So we do have a goal as you look at our sustainable growth model as well to improve our gross margins over time so that we can invest back in brand building and innovation.

In terms of the fixed cost absorption impact from deleveraging a bit in terms of volume, it's not significant in terms of impact to our full year gross margin. We have now said that our gross margin would be flat to down slightly. Previously, it was flat to up slightly. Distribution costs are also a factor in there, though, Bryan.

<Q - Bryan D. Spillane>: All right. Thank you. So just to be clear, there's nothing that's really changed since you announced – initiated Project K that would sort of change your gross margin sort of goals longer-term?

<A - Ronald L. Dissinger>: That's correct.

<Q - Bryan D. Spillane>: Okay. Thank you.

Operator

Thank you. And the next question comes from David Driscoll with Citi Research.

<Q - David Cristopher Driscoll>: Great. Thank you and good morning.

<A - Ronald L. Dissinger>: Morning.

<A - John A. Bryant>: Morning, David.

<Q - David Cristopher Driscoll>: Guys, I think you said that 2014 inflation would be positive and it's in line with your initial expectations, but that the second half of 2014 would be more favorable than the front half. And then moving into 2015, Ron, I think you said in your script, you used the word benign. I kind of take that as zero. Big picture, are we finally kind of entering the tipping point where cost savings are well ahead of the inflation? And how will you spend the net savings?

<A - Ronald L. Dissinger>: So, David, our cost savings in 2014 are ahead of inflation for the full year. I said for the full year, we do expect slight net deflation. And as I've said all along this year, that net deflation is more pronounced obviously in the second half of the year. So we saw a little bit of net deflation in the third quarter and a little bit of net deflation in the fourth quarter as well. And that's helping us to manage our guidance from an operating profit standpoint.

<Q - David Cristopher Driscoll>: Can you make a comment on 2015, given you're mentioning that this inflation was benign, so that's more favorable than what's been going on? I mean, I don't want to read too much in this, but is that accurate?

<A - Ronald L. Dissinger>: Well, so from a material inflation standpoint, what I said was it's more benign. I think the thing to remember, David, is there are a number of other things that can impact our inflation – or cost structure. That includes transportation and logistics costs. It includes factory costs as well. So I'd prefer to give you more robust guidance when we get into the fourth quarter call, but for now what we're seeing is a relatively benign commodity inflation.

<Q - David Cristopher Driscoll>: We're watching oil plummet, so I feel like that sounds like that should be a fun call in the fourth quarter. I'll leave it there and pass it on. Thank you.

<A - Ronald L. Dissinger>: All right. Thanks.

Operator

Thank you. And the next question comes from David Palmer with RBC.

<Q - David S. Palmer>: Good morning, guys. Your European segment margin, it's been pretty steady this year around 12% area. That's obviously a nice improvement year-over-year and perhaps fueled, in part, by still getting synergies out of Pringles. Where do you see that division margin going over time? Can you continue to drive margins meaningfully higher with similar revenue trends?

<A - Ronald L. Dissinger>: So we have had good performance on our European margin this year. Input costs are a factor there. We've seen lower input costs versus prior year and, in addition, very strong productivity savings.

Obviously, we have a goal to grow our Europe operating margins over time. We haven't cited specifically a goal at this point in time, but we do believe there's opportunity for improvement in those margins.

<Q - David S. Palmer>: And then just separately one more, on Kashi, are you getting any positive responses on the specific SKUs where you're reformulating the product from the consumer or the trade? Does it feel like there's a turn coming with that brand, either in velocity or shelf space? Thanks.

<A - John A. Bryant>: As we look at Kashi, we are getting some positive responses from retailers about putting Kashi back in California, putting a dedicated team around it and retailers are very excited to work with us to get that business back into growth. Having said that, we have seen some distribution losses through the year on Kashi and unfortunately, that's going to continue to weigh upon that business even as we go into 2015. I think it's going to take some time as we take that brand more broadly GMO-free and we have some additional USDA Organic SKUs coming in. But I don't think renovating the food alone is going to be enough. I think we're going to need to bring out some new innovation, bring out some new foods and truly get on the front edge, the leading edge, of pioneering nutrition. We have a new team that's tremendously excited to do that, a lot of energy around this, but unfortunately, it's going to take some time for us to see improved trends in the Kashi business.

<Q - David S. Palmer>: Okay. Thank you.

<A - John A. Bryant>: Thank you.

Operator

Thank you. And the next question comes from Eric Katzman with Deutsche Bank.

<Q - Eric R. Katzman>: Hi. Good morning, everybody.

<A - John A. Bryant>: Good morning, Eric.

<A - Ronald L. Dissinger>: Good morning, Eric.

<Q - Eric R. Katzman>: Hey. Sorry, but a couple of questions, I guess, first, Ron, your annual target this year implies an $0.08 range. Can you just talk a little bit about what would put you for the fourth quarter either at the high end or the low end of that?

<A - John A. Bryant>: Sure, Eric. I mean, obviously, our business is very sensitive to top-line performance, so if there's anything that's going to drive it towards the high end or low end of that range, it's going to be top-line performance.

<Q - Eric R. Katzman>: Okay. And then, second question maybe for John, like how much – I think this maybe is the second quarter or third quarter in a row where Pop-Tarts have been down materially. With 80% share, it's got to be one of your most profitable businesses. Like how much of that is playing a role in the Morning or even North America profits being under pressure and kind of what gives you the confidence that that business, which, I think by your – as you've stated before, has been up for something like 40 years in a row, what should give us the confidence that that can rebound?

<A - John A. Bryant>: Eric, as you say, Pop-Tarts is a great business. It's been – on long-term growth. The last two quarters we have been soft in Pop-Tarts, largely because in the prior-year period, we were very strong behind the Peanut Butter launch, and so we got tremendous in-store display and execution. This year, our Pop-Tarts innovation is more later in the year. So we have peanut butter and jelly pop tart coming out in the fourth quarter, which we expect to get some good support behind as well. So it really had to do with comparisons. If you were to go back and compare it to the business two years ago, it's still doing reasonably well, so it's really a year-on-year comp issue.

<Q - Eric R. Katzman>: Okay. And then sorry, but last question, you've been very public through most of this year about the problems with Special K and Kashi. And obviously, you're about to, it sounds like, completely redo the brand. So is this kind of transition period here, like does that explain the fact that that business sounds like it's just been as it currently stands falling off a cliff and responsible for so much of the underperformance in the North America operation?

<A - John A. Bryant>: I think we're clearly struggling with Special K in the U.S. this year. Quite frankly, Special K in all of the large markets has been – developed markets, has been struggling. What's happening there is we have communicated Special K around dieting, lose weight over a two-week period. And we really need to move that to a weight wellness discussion, move it away from reduced calories to the food itself has tremendous nutrient benefits. That requires us to change the communications to focus on that, but also to make some food improvements, which is what we're doing in cereal, in Special K bars, in cracker chips. And until we get some of that new food out there, while the communication shift will help us, really the communication shift in combination with the food, in combination with new consumer promotions and packaging, that whole relaunch element is what's required to get the excitement around the brands to drive reappraisal to bring people back into what is a tremendous franchise.

I think the softness we've seen here in the third quarter is greater than we've seen year-to-date, but, quite frankly, we've seen the softness through the first half of the year, as well.

<Q - Eric R. Katzman>: Okay. I'll pass it on. Thanks.

<A - John A. Bryant>: Thanks, Eric.

Operator

Thank you. And the next question comes from Jason English with Goldman Sachs.

<Q - Jason M. English>: Hey, good morning, folks. Thanks for the questions.

<A - John A. Bryant>: Morning.

<A - Ronald L. Dissinger>: Morning, Jason.

<Q - Jason M. English>: So, John, I appreciate that you're a cereal company at your core, but you've assembled a pretty formidable Snack business over the years. The cereal category is clearly soft across a number of your markets. And, John, you seem to suggest this is driven by a fad or trend that may just need to run its course. Meanwhile, [ph] Snack's a growth year, (58:53) so I see your slide on plans for 2015 and it looks like around 90% of these initiatives you detail are geared to breakfast. And I hear you talking about curtailing brand building overall, but ramping at high single digits in Morning Foods. So my question is why are these the right investment priorities? I'm not suggesting you put cereal in outright harvest mode, but why isn't every incremental dollar going to your snack portfolio to turn that around and ride the wave that's in front of you now?

<A - John A. Bryant>: Jason, great question. We have 45% cereal, 45% snacks today. And as you look at the 2015 plans, while the slide might suggest more of a focus on cereal, in reality we are investing back in both of our businesses. And we have some brands that actually cross both businesses. So an investment in Special K in cereal also helps the Snacks business as well. So as we look at the Cereal business as we look at 2015, we're going to continue to invest in the Cereal business, but I wouldn't want you to believe that we are going to disproportionately invest back into the Cereal business. We'll be investing back behind growth in Pringles. We're investing back behind the growth we're seeing in our cracker portfolio in the U.S. And so we have some great growth opportunities as we go forward here. So I would say it's a balanced investment in growth across the portfolio.

<Q - Jason M. English>: Okay. Thanks.

<A - John A. Bryant>: Thank you.

Operator

Thank you. And the next question comes from Diane Geissler from CLSA.

<Q - Diane R. Geissler>: Good morning.

<A - John A. Bryant>: Good morning.

<A - Ronald L. Dissinger>: Morning.

<Q - Diane R. Geissler>: I wanted to ask about take-away versus shipments, appreciate it's been challenging in the grocery aisles with increased merchandising from categories that traditionally haven't received as much merchandising support from the retailers. So could you just talk about, particularly within North America and in your key categories, what you're seeing shipments versus consumer take-away?

<A - John A. Bryant>: Looking in the U.S., our DSD system is normally – shipments and consumption tend to lay up pretty closely, so I wouldn't say there's any big, anything to flag there. I think on frozen foods, maybe a little bit of shipment ahead of consumption as we launch some new products. But we feel good about the programs we have there. And then on cereal, we ended the quarter with a little bit more inventory than last year, but we expect to end the year with the same amount of inventory as we had last year.

<Q - Diane R. Geissler>: Okay. Terrific. Thank you.

<A - John A. Bryant>: Thank you.

Operator

Thank you. And the next question comes from Alexia Howard with Sanford Bernstein.

<Q - Alexia Jane Howard>: Hi, there. Can I ask about – actually following on from Jason's question about where to allocate resources, is there a broader question about portfolio shifts here, that is about maybe trying to acquire or increase your exposure to snacks, which is a growth category over time, both in the U.S. and globally, and maybe de-emphasizing the cereal category? It really depends on how structurally-challenged you believe the cereal category is, but how do you think about portfolio shifts over the longer-term? Thank you.

<A - John A. Bryant>: Alexia, I think if you go back over the last decade or so, we've taken the company from being 70% cereal to 45% cereal, 45% snacks. That's been driven by both the Keebler acquisition as well as the Pringles acquisition. And as you look at the growth strategy for the company going forward, we have four growth platforms. One is to continue to grow our breakfast business around cereal. The second is to continue to grow our Snacks business. The third is to grow our Frozen Foods business here in North America. And the fourth one is to continue to expand our emerging market platform. As you think about our growth priorities going forward, clearly, snacks is an important growth priority for us. And we'll look to continue to expand that over time. And that may intersect also with that emerging market growth objective as well.

So I would expect us to continue to grow our Snacks business, however, I wouldn't see this as an alternative, do we have to grow cereal or snacks. I think it's an and strategy, we can do both. Clearly, it's not the right thing to do to over-invest disproportionately in one versus the other. We already spend a lot of money in brand building in cereal. In fact, the reason the company has a high percentage of sales in brand building is because the cereal category is one of the most brand building-intensive categories in the food industry. So there's a lot of brand building that's been already behind cereal, and the key there is to sustain that investment and to continue to improve the quality of ideas and execution and bring those foods increasingly on-trend with what consumers are looking for.

On snacks, we have an opportunity to keep growing that business over time. And I'm excited by our growth in snacks, particularly since the Pringles acquisition, which has truly ignited the international snack growth opportunity that we have as a company.

<Q - Alexia Jane Howard>: Thank you. I'll pass it on.

Operator

Thank you.

<A - Simon D. Burton>: Keith, we'll take one more question, please, Keith.

Operator

Okay. Thank you. And that question comes from John Baumgartner with Wells Fargo.

<Q - John J. Baumgartner>: Thanks for the question. Good morning.

<A - John A. Bryant>: Morning.

<Q - John J. Baumgartner>: John, I wanted to touch on North America. And you reported a negative price mix there for the segment in Q3, and I think appreciably negative, and just based on your history, that's pretty unusual. So just wondering if you can maybe elaborate on that in terms of is there anything one-time in there or any sub-segment driving that impact or even if it's just we should consider that going forward as sustainable?

<A - Ronald L. Dissinger>: There's a little bit of business mix in there, so for example, Wholesome Snacks is down. That has an impact on our mix performance. John also commented on within the North America Other segment, which includes Canada and Frozen Foods, some costs to launch new product and there was a little bit of channel mix in there as well. And then we also talked about the effectiveness or efficiency of trade investments. John talked briefly about merchandising. So those are the items that are impacting it specifically this quarter, John.

<Q - John J. Baumgartner>: Okay.

<A - John A. Bryant>: Yeah, I think over time, we would not like to see negative price mix in the North America segment.

<Q - John J. Baumgartner>: Okay. So this is more of a temporary issue then?

<A - John A. Bryant>: I think it has more to do with the timing of some innovation launches in some of our products. And also just, as Ron said, some business mix. If you're looking at each individual business, you wouldn't necessarily get the same pattern as if you were looking a consolidated segment.

<Q - John J. Baumgartner>: Okay. Thanks, John. Thanks, Ron.

<A - John A. Bryant>: Thank you.

Simon D. Burton

Okay, everyone, thanks for joining us today. We appreciate it. We'll be around the next couple days for any follow-ups.

Operator

Thank you. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect. Have a nice day.