Company Name: Kellogg
Company Ticker: K US
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Event Description: Barclays Global Consumer Staples Conference

Market Cap: 21575.6260662
Current PX: 63.34
YTD Change($): 6.33
YTD Change(%): 11.103

Bloomberg Estimates - EPS
Current Quarter: 0.911
Current Year: 3.849
Bloomberg Estimates - Sales
Current Quarter: 3339.643
Current Year: 13506.667

Barclays Global Consumer Staples Conference

Company Participants

- Steven Cahillane, 'Chairman Of The Board & Chief Executive Officer'
- Amit Banati, 'Senior Vice President, Chief Financial Officer'

Other Participants

- Andrew Lazar

Presentation

Andrew Lazar

Everybody, we can just find our seats, we'll kick off our next presentation. So we are very pleased to welcome Kellogg's CEO, Steven Cahillane back to the conference; and Amit Banati, to his first Barclays Global Consumer Staples Conference, the CFO. Over the past two years, Kellogg has aggressively reshaped its portfolio, behind a renewed emphasis on growth including the acquisition of RXBAR and investment in West African food distributor MultiPro, and the recent divestiture of its Keebler cookie business. Furthermore, Kellogg has undergone meaningful internal transformation as well.

Notably by transitioning its snacks business from a DST to warehouse system, reorganizing its North America business to be a faster and flatter organization. And the company is starting to see these efforts bear fruit with a solid start to the year, including organic sales growth last quarter, that was the best it's been since 2012, despite current US cereal headwinds. Steve, we look forward to hearing more about Kellogg in your plans to continue the momentum into the second half of the year. And with that hand it over to you.

Steven Cahillane, 'Chairman Of The Board & Chief Executive Officer'

Thank you, Andrew. It's great to be here in Boston. Thank you all for being here. It's especially great to be here in Boston as a native New Yorker with the Yankees 16 games, clearly the RedSox, right.

Now before we get started just -- this is our forward-looking statement, obviously, so I'd invite you all to read it. Also, please note that when we talk about net sales growth, we are referring to it on an organic basis unless otherwise noted. So I'm here to talk to you about strategically where we are and where we are with our Deploy for Growth strategy. I was here last year and we were also in Cagny a year and a half ago.

And the nature of that presentation was essentially rolling out Deploy for Growth and then a report out on exactly the progress we were making, and why we felt it was the right strategy for us? I'm pleased to be here with you today to talk about, why Deploy for Growth is actually working, because it is working, it's changing our mindset, it's guiding our decisions, and it's resulting in real tangible changes. The portfolio transformation that Andrew mentioned is real. It's made of some more international company, especially in emerging markets. It's made us some more snacking based company, especially in categories where we have a competitive advantage.

We restored many of our brands to truly world-class status as we've distorted resources against some of our big power brands and I'll talk to you more about that. And finally a little bit less notable, it's reoriented our sinking as a company, much more towards occasions. And I get asked a lot, what does that exactly mean. Well, when you grow up as a US serial business, you think differently when than you're a developing market company and emerging snacks company.

And it's changed the way we think about why people buy our products, when they consume our products, how they consume our products, and it's really revitalized our thinking in how we really put the consumer at the heart and soul of everything that we're doing. So we're not going to get into each of the four growth boosters today, but I did want to focus on the four portfolio segments and talk to you about how we see them growing over the long-term, but today's kind of the theme that I'd like you to take away is again, not necessarily just a progress report on Deploy for Growth. But why we are so confident that this is the right strategy and the strategy is working. Confidence that we're doing -- we are doing the right thing for the long-term health of the business.

Thinking about the next generation and what we're going to turnover. Confidence that our portfolio today can deliver steady dependable growth. I've said many times that the most difficult portion, the most difficult thing in the strategy would be to return the company to organic net sales growth. In the second quarter, we were able to point to organic net sales growth in all four of our regions for the first time in a long time, and we're confident that we'll deliver continued organic sales growth going forward, but we're looking for steady sales -- steady growth not only in sales, but also striking that next that right balance and starting to grow our margins as well.

So over time, we have room to reinvest, we still deliver a dependable dividend. We have reliable total shareholder returns, when we get ever closer to our long-term algorithm, but we still have work to do, we acknowledge that. We've returned to net sales growth, but we still have work to do to get back to steady dependable growth. One of the areas clearly where we have the most work in front of us is developed market cereal, but develop market cereal, although it gets a lot of attention.

Understandably, people here at Kellogg and they think US cereal company, but it's less than a third of our portfolio. But it's important, it's a highly penetrated category, it's a profitable category for us. And by no means, do we think that this category's best days are behind us, but it's going through a challenging time right now. As a category, it's only declining by about 1%, so it's not falling off the cliff as if you read some reports you might think.

We're not doing as well as the category and I'll explain to you exactly why that is and what we're doing about it. But I think it's important to note that, when you look at the entire category over the course of a long period of time. So look back the last 10 years, through to today. The category is essentially flat.

So the category is not disappearing. It has some challenges clearly as food beliefs change, but it's still an exciting category to be in when you think about 90% household penetration. But we need to do a better job ourselves and I'll use the US as an example of the things we need to do to get back to growth. We've talked quite a bit about the challenges that we've had in the first half of the year.

We've gone through an entire price packed architecture redesign, it's been very significant, we've taken dozens of cube sizes out of our portfolio, that's simplified or manufacturing quite substantially, it's improved the look that we have in the grocery stores, it's made it much more shoppable. It's made us much more merchandisable but it led to a real significant pullback in promotions in the first half of the year and it led to a position that we don't like to be and where we were losing share. And we have every intention of maintaining our competitiveness as we get into the back half of the year and even making investments that we believe will revitalize some of our story brands. A couple of examples here Kellogg's Frosted Flakes, a fantastic brand and the whole priest suite and segment for us has been doing better than the balance of our portfolio.

We've got something called Mission Tiger, which we're very excited about, you'll be seeing more and more of the iconic Tony the Tiger, he's going to be helping fund schools that have lost their sports programs. It's going to be a very integrated 360 degree approach to how we get Tony the Tiger and Frosted Flakes back in front of people in a very meaningful way. And it culminates in a name sponsorship of the 2020, Tony the Tiger Sun Bowl, which by the way, Sports Illustrated has said is the coolest name ever for a named bowl. So I'm sure you're all very excited to see Tony the Tiger and what he does in the Sun Bowl and everything that comes through the Mission Tiger, but the issue that we have and the issue that the industry has in US cereal can really be isolated around what we call the health and wellness segment.

And historically, if you go back in time, every time the category has struggled, it's primarily been because food but -- food beliefs change. At one time 10 or 15 years ago, it was all about diet and Special K range supreme it had a very strong diet positioning. And then, you had food beliefs change and it was about the Atkins diet, and today you have people talking about the paleo diet. And you have people talking about moving away from carbohydrates and towards protein.

So the job we have to do is to do a better job at innovating and renovating and making our foods relevant for today's food beliefs. And reminding people that cereal can be very important and a very, and a great addition to a healthy diet and one of the areas where we've had good success on that is in Australia through our fiber fit campaign, really reminding people of the importance of fiber and fiber in their diet and it's helped us it stabilize that brand in Australia. We see applicability for that in the United States. Corn flakes and Raisin Bran, emphasizing simple ingredients, that's work well for Corn Flakes in the UK, continues to work well for Corn Flakes in the United States.

And we've had some success with higher protein sub-brans for Special K, Mini-Wheats and Crunchy Nut. But there's clearly worked that we need to do to continue to revitalize our cereal business in the US. We've had green shoots in less complex portfolios around the world. You can see here on this slide in developed markets outside the United States, we've gotten faster towards stabilization, and that's what we aim to do in the US, and we have every confidence that will in fact do that.

But I'd remind you that, when we talked about our second quarter results just a few weeks ago, we achieved growth as a company, despite the significant headwinds in US cereal and we even achieved growth in North America, despite the headwinds of US cereal. But we are bound and determined to do better in US cereal and developed market cereal. The point here is that the rest of the portfolio, the other 70-plus percent is performing very well and that leads me to developed market snacks, which is a meaningfully larger portion of our portfolio and will be more than 40% of our sales even after our recent divestiture. And we've done a terrific job at really expanding the availability through on-the-go offerings and investing in some of our power brands to really get our develop market Snacks business with some significant momentum.

When we talk to you a little bit about what's happening in the US in terms of revitalizing the US business, it's in terms of developed snacks, the US is still by far the largest portion. The real unlock for us in terms of getting to this type of exciting growth in the United States was the exit of DSD, which is now fully behind us. And I remind you this was a very courageous move by the company. And there were skeptics that said, when you exit DSD, you're going to lose capability and in-store presence.

And what our plan was -- and what we said we would do is we would take that investment that we were putting in a declining return on investment route to market DSD, and we did invest in retailer margin, because we're going to leverage their supply chains and we would leverage -- we would invest in brand building in above the line, and it's worked. Today, we have a snacking portfolio that is very much revitalized after the divestiture, the five power brands that I'm going to talk about in a little bit more detail. They were 60% of our sales, they are now 75% of our sales. And you'll see when we talk about brands like Cheez-It, I mean significant growth based on the investments in brand building, it's very exciting, it's nearly $1 billion brand and it's driving our share growth in the US Crackers category.

We've moved to an entirely new level of brand building, with Cheez-It and we've innovated around the brand, our Cheez-It Snap'd, filled up our factory capacity almost immediately and has been a terrific innovation for us and is sourcing from a completely different category than the core Cheez-It. So you can see here Cheez-It, tremendous momentum, started in 2018 and continuing in the first half of 2019. Rice Krispies Treats, of a terrific 2018, you can see substantial growth again double-digits in 2019, again benefiting from the strategic shift we made in investing back into brand building and brand messaging. With our Rice Krispies Treats, this is particularly notable in that Rice Krispies Treats has very, very successful digital marketing campaigns.

It also has a new innovation platform in Rice Krispies Treats Poppers, which is much more towards confectionery. So pushing a little bit outside its comfort zone and sourcing new users from confectionery, we have new big sized bars for on-the-go occasions, expanding our channel availability and we actually outran our capacity last year and are now caught up. Rice Krispies Treats, I would also tell you like many of our other brands is a US-centric brand, but we know there's opportunities to continue to grow this brand not only in the US but also to expand it outside and we're doing that now in markets like the United Kingdom and Australia. Pop-Tarts, another great story of revitalization.

You can see the brand actually declined in 2017, we stabilized it in 2018 and we're growing double-digits in the first half of 2019. And that's based on getting back to the basics in terms of brand building, following it up with food news, we've got new Pop-Tarts Bites which is a new platform. And again focused on the go occasion of wonderful hand-to-mouth treats and obviously you can see that it continues to perform extremely well. And this brand, we also believe has great relevance in markets outside the United States.

So big brands that are growing significantly greater than they were just two years ago. And RXBAR. RXBAR is a brand that we bought nearly two years ago. You can see here that we had some difficulties in terms of product, we're through that now and we're back to the types of distribution that we had, we're lapping that significant distribution as we speak successfully.

And we're also innovating and proving that RX is more than just a bar, but it's also a platform and we're doing the same type of test and learn that made this brand so successful at the beginning with launches of Nut Butter online and now oats, which is coming to market as well and we've already sold all of our capacity of RX oats. And yet another brand with opportunities outside the US, and we're currently launched -- we've right now launched in Canada and the UK. So we really like what RX is done to the portfolio. We like RX as a platform and we're very bullish about the future of RX.

And rounding out in the United States, Pringles, another significant brand for us and you can see in 2018 and again in 2019 growth-on-growth. And again, it comes down to significantly improved brand building. Here, the core innovation and core insight was this idea that only Pringles can be stacked three crisps on top of each other to form your own creative flavor. We launched that on social media and we even launched it two years ago with our first ever Super Bowl commercial, which we repeated last year.

And it created tremendous buzz for us, for the brand but Pringles is not only growing in the US, it's also been a significant grower for us around the world as we've taken brand building to whole new levels and we're literally selling every Pringles can that we can make all around the world. So we're very excited about that. We're also excited about what we're doing in wholesome snacks around the world. I mentioned Rice Krispies Treats.

We have Rice Krispie Squares in the UK, we have WK Kellogg offering in wholesome snacks around the world, which were also off to a good start. And as I already mentioned, we're early days in expanding RX in Canada and the UK. Let me take you to another portion of our portfolio, net developed markets frozen, our developed markets frozen is a small part of our portfolio. But we like our position there.

Starting with Eggo, a terrific brand that you can see since 2017 has been growing nicely. We're lapping significant growth in 2018, with more growth in 2019. And that's again, brand building and innovation, the innovation around thick and fluffy has been a significant driver for us as that is led the growth in the Eggo franchise, but also fun exciting new shaped platforms with our licensing partners, driving excitement with our young users, which is helping Eggo, continue to have great growth, and we're very excited about its prospects in the future. Now, if I switch to another one of our frozen brands, MorningStar Farms.

Interestingly, I think my first year and a half with the company, I got a handful of questions about MorningStar Farms, and now for some reason I get a lot more questions about MorningStar Farms and that's exciting because it's an exciting category. And you can see here that in 2019, we had low growth but in the last 13 weeks in the last four weeks, we're accelerating that growth based on some exciting things that we're doing. And we're doing that aroun, again brand building and core innovation, we also have overhauled packaging coming to market which we're very excited about and we're getting edgier about the way we communicate with consumers because MorningStar Farms is really about driving trial, when people try MorningStar Farms they come back, we know we have advantage food. So what I'd like to do is run a short video clip for you right now to give you an idea of how we're introducing this brand to consumers.

If we could run that, please? (Audio-Video Presentation) So for those of you who aren't as up-to-date on pop culture that was Colton Underwood, who is an alum from the bachelor, also a college football superstar and very well-known and we had a lot of fun with that. I said, I wouldn't say that word. So but there you have it. After a week, this video had over a 1 million views, 8,000 comments.

It was picked up by several media outlets and generated more than $300 million impressions. So there's no doubt that when we look at our core offering in MorningStar Farms, we've got momentum, we'll continue to build on that momentum. We are the original in this plant-based space. We like the momentum we have, we continue to be excited about that.

We're going to build on that momentum. But, we also have something exciting, I've been talking about our innovation pipeline. And launching in the next couple of months, will be something called MorningStar Farms Incogmeato. So this is a sub-line of MorningStar Farms.

We're planning a line that extends across multiple segments. So think about meat replacement, think about chicken replacement. Our testing indicates we have a consumer preference for our food. We think the food is outstanding, I've been on in our test kitchen myself grilling this up, it is a real meat-like experience, it grills like meat, it bleeds like me, it tastes like meat.

And we're very excited. We think we have a right to win in this space. And again launching in the first quarter of 2020 and we have ambitious plans for this. A much smaller thing but, worthy of note because it's because it's also plant-based and in kind of the meat replacement is something called Leaf Jerky.

So think about Meat Jerky, but 100% plant-based, something exciting about this is one year ago, we had a program in the company called Tiger Tank. It's our version of Shark Tank and internal employees came up with this idea for Leaf Jerky. One year later, we're launching. And so we're launching a new test, we'll see what it does.

We've got a sample in all of your bags, so I'd be very interested to hear what you think of all that. So a lot of exciting things happening throughout our portfolio, we like where we are in terms of our return to organic sales growth. We understand the job that we need to do in terms of getting back to developed market cereal stabilization, margin expansion and getting the right balance of volume growth, net sales value growth, and profit growth. And so that's where we're excited about it.

What I'd like to do now is invite Amit up to the stage, our new CFO, but before that he ran our EMEA region, and he's going to take us through emerging markets. Amit?

Amit Banati, 'Senior Vice President, Chief Financial Officer'

Well, thank you, Steve. And hello, everyone. As you well know, emerging markets offer exceptional long-term growth prospects for packaged foods.

Through acquisitions, geographic expansion, and portfolio diversification. We have dramatically transformed our emerging markets presence within the last decade. Today, it is more than 20% of our portfolio. We've stated previously that we project this segment of our portfolio to grow at a mid-single-digit growth rate over time, and we are more confident than ever in that outlook.

Let me explain why? First of all, we are already delivering that kind of growth or even better today. The chart shows organic growth relative to that of the total company. In recent years, we have expanded in high-growth markets and categories. We've done this through both acquisitions as well as internal development.

This isn't just a one-time surgeon growth. It has to do with the markets we are now in and the categories that we are now in. It has to do with the scale and distribution we built up, plus our ability to reach more consumers by offering a wide range of affordable options. This is what makes our growth exciting, as well as sustainable.

Let's start with the portfolio, 10 years ago, this pie chart would have been almost completely yellow. We were really only in cereal. And while cereal is growing nicely in emerging markets including right up through the first half of this year, it alone didn't give us enough scale. In less than a decade, we have diversified our portfolio from cereal-only into snacks and noodles.

This is extremely important, because in emerging markets as in developed markets, snacking is on the rise. And because in many markets noodles is a closer cultural fit today than cereal. But most of all, it offers us the ability to better penetrate the high-frequency stores. The Mom and Pops, that predominate in these markets.

So yes, we have filled in geography gaps and we have built up distribution and scale in key markets. But we've also transformed our portfolio into something that has a lot more growth opportunities over time. This is a big difference from just a few years ago. We've also created affordability for consumers through new pack formats and foods.

This slide shows our affordability pyramid using EMEA for some examples in cereal and snacks. We use this to guide us in filling in gaps in our portfolio. We've always had a majority of our portfolio situated in the aspirational top of the pyramid, products, costing as much as 6 times the cost of a traditional local alternative. But in recent years, we work to fill in our portfolio with foods and pack types that can play in the mid-range at around 4 times the cost and even at the entry level at around 2x the cost.

This is making a big difference for us, opening us to new consumers, new occasions, and new channels. Now, let's visit three markets, one from each of our three international regions just to get a quick glimpse of our emerging markets strategy in action. Within Europe, our principal emerging market is Russia. We acquired a local brand many years ago, transforming it from a bulk food supplier to a branded food company.

We renovated its products, its packaging, and its brand positioning. The growth has been outstanding as has the improvement in profitability. Meanwhile, we have expanded biscuits and Pringles. In fact Pringles net sales over the past three years, have grown at a compound annual growth of 30%.

These initiatives have driven double-digit growth for us in Russia. And we are now expanding into Central and Eastern Europe, where we think we have similar growth opportunities for our portfolio. Brazil is South America's biggest country and population and economy, and while we've been in Brazil for several decades, it was always a relatively small business for us. We were only in cereal, which is a relatively small category in that country.

Our transformation in Brazil began with the Pringles acquisition in 2012. This gave us an entry into snacking with an already beloved brand. Then the transformation really took hold in late 2016, with the acquisition of Parati. This diversified our portfolio further, primarily into biscuits, but also into powder juices, and it also provided important sales and supply chain synergies.

On the sales side, it offers us strong expertise and capability in high frequency stores, better known as Mom and Pop stores enabling us to sell to Kellogg products in that channel. It also enables Kellogg to gradually extend Parati's distribution reach from its foothold in the South region up into new regions, where Kellogg is stronger in the modern trade. On the supply chain side, we are consolidating and expanding production into a single site. We have opened a new cereal plant at the site, replacing an older less efficient cereal plant in Sao Paulo.

And we've opened up first Pringles plant in Latin America on this side as well. These moves enhance our capacity and capabilities, and will reduce our overall landed cost considerably over time. There is no question, we have strengthened our business in Brazil as evidenced by a strong growth in this important market. Africa is the final frontier of emerging markets.

We've been in South Africa for decades with a strong position in cereal. But we step changed our Africa presence and prospects with acquisitions in Egypt that gave us cereal and biscuits scale in Northern Africa, and our partnership with Tolaram in Nigeria which gave us distribution muscle and the ability to launch Kellogg brands in West Africa. We now have a scale business in the three largest economies in Africa. And in 2019, our net sales in Africa will exceed $1 billion more than triple what it was in 2015.

The opportunity here is outstanding. We will continue to grow cereal and we will continue to expand Pringles into new markets. We've also been building a new growth leg for us, which is noodles. Beyond Nigeria and Ghana where we have a stake in the company that markets the leading brand of noodles, we are rapidly expanding noodles under the Kellogg's brand name.

This is affordable and adaptable food, that offers tremendous opportunity for growth. Not to mention brand awareness across the continent. But nothing can bring this business to life, like the following video. So, if we could just run the video, please? (Audio-Video Presentation) We've been generating double-digit growth in Africa.

If you consider the large population of Africa, the ability to expand geographically, to expand our portfolio, to drive distribution and awareness of our brands and to offer products at price points up and down the affordability pyramid. It is clear that we can generate growth in this business for a very long time. And those are just three markets that we are transforming. We're showing great momentum in other markets as well.

Markets such as Mexico and India and many others. As a result today, we are not only growing our emerging markets at or above our long-term target for net sales, but Kellogg company in our ranks among the top of our peer group, for emerging markets as a percent of the total portfolio. And this matters, because emerging markets offer the best long -- longest term growth for packaged foods. And it has been paying off in the form of mid to high single-digit organic net sales growth in recent quarters.

Hopefully, you can see why we are more confident today that this emerging markets portion of our portfolio can grow at -- can grow net sales organically at mid-single digit rate over time. As we've discussed often, our priority has been getting our top-line growth growing again. We know we cannot deliver earnings and cash flow growth sustainably without growing sales. Today, we have emphasized that we have increased confidence in our portfolios long-term top-line growth.

But we also know that our profit and cash flow growth will follow and we have confidence that each segment will improve its operating margins over time. This chart shows how each segment will operate -- will improve its operating profit margin over time. Improving margins within each region will more than offset the portfolio mix impact of a shift towards lower scale emerging markets or away from developed markets cereal. Of course, underneath this margin improvement is getting firmly back on our operating models of volume to value and manageable cash.

In recent years as priority shifted first to cost reduction and then to investment for growth, we have assigned differing weights to elements of these models, knowing that it would take some time to get back on them in a truly sustainable way. We think, we're getting to that point now, where we can gradually get back on these sustainable balance cycles. As we emerge from an investment phase and as we get our top-line back into growth, our profit and earnings will follow. We're nearly passed the heaviest of our investments in revitalizing brands and setting up or enhancing capabilities.

We are gradually restoring profitability on are on the go pack formats. Our revenue growth management efforts are yielding positive price realization and we are building scale in emerging markets, and starting to realize operating leverage in growing -- in these growing businesses. So we're getting close, excluding of course, the impact of our divestiture. We also have increased confidence that we can get back to cash flow growth.

The last few years have been a period of incredible change and investment, resulting in high upfront charges and incremental capital investment. But much of this will be behind us as we get back, as we get past 2019 and we will continue to demonstrate good discipline on working capital. With that, let me now hand it back to Steve for some final closing comments.

Steven Cahillane, 'Chairman Of The Board & Chief Executive Officer'

Thank you, and I know we're tight on time.

So I'll just quickly wrap-up with just a reaffirmation that Deploy for Growth is working a year later. Undoubtedly, our portfolio is more shaped towards growth. We have revitalized world-class brands, achieving significantly better growth rates against them. We're reaching more occasions and more channels than the company ever has before and we've improved our service and our in-store execution for our retail partners, which is very important.

The first half results, reflect this progress, and again returned to strong organic net sales growth is something that we're confident we'll continue. So for you are share owners. We are a snacking play, we are an emerging markets play and we're also now a plant-based meal alternatives play. We know we have work to do, which I've said, we have to stabilize our matured developed market cereal.

We know that, we're on it. We have work to do in continuing to grow our margins. We know it. We're on it.

And then profit and cash flow growth will follow when we do that. So combined with an attractive dividend, this will -- we're quite confident, deliver very healthy shareholder returns. So with that, I'll close, and thank you again very much for your interest.