

Company Name: Kellogg  
Company Ticker: K US  
Date: 2020-02-19  
Event Description: Consumer Analyst Group of New York (CAGNY) Conference

Market Cap: 22631.5981898  
Current PX: 66.3499984741  
YTD Change(\$): -2.81000152588  
YTD Change(%): -4.063

Bloomberg Estimates - EPS  
Current Quarter: 0.911  
Current Year: 3.861  
Bloomberg Estimates - Sales  
Current Quarter: 3298.625  
Current Year: 13450.353

## Consumer Analyst Group of New York (CAGNY) Conference

### Company Participants

- Steven Cahillane, Chairman of the Board and Chief Executive Officer
- Chris Hood, President, North America
- Amit Banati, Senior Vice President and Chief Financial Officer
- Unidentified Speaker

### Other Participants

- Unidentified Participant
- David Driscoll, Analyst

### Presentation

#### Unidentified Participant

Good morning everybody, and welcome back for day two. In keeping with tradition, our first presenter of the day is the Kellogg Company. First off, please join me in thanking Kellogg for sponsoring the wonderful breakfast this morning. 2019 was a year in which organic sales growth accelerated as faster growth acquisitions entered the base and the snacks business continued very strong momentum. The margins were held back by a few factors, including the move to supply the faster growth on the On the Go packs. Most of this now appears to be in the rear view, and we look forward to hearing more detail from CEO, Steve Cahillane, about Kellogg's growth plans for 2020.

Steve, thanks for being here. Over to you.

#### Steven Cahillane, Chairman of the Board and Chief Executive Officer

Thanks, Andrew. It is great to be here with you. This morning, I hope everybody had the opportunity to enjoy a great Kellogg breakfast. The highlight for me this morning was as I looked over to the MorningStar Farms line, it looked like the grand opening of a chick fillet. And those of you who know chick fillet grand openings, it's -- you can see how we're encouraged.

It's also worth noting that today marks the 114th birthday of our great Company. So, literally 114 years ago to the day, Mr. Kellogg signed the Articles of Incorporation of our Company. And I believe that any company that's over a century old has to be doing something right and we certainly are. We have sustained a legacy of health and wellness, social responsibility, great tasting food and world-class brands for more than a century. Kellogg is a great company that has stood the test of time by adapting the changing consumer trends and business environments, which have been ever more pronounced in the last few years. And I'm proud to be standing here today as this company is in very good shape, as we embark on our next 114 years.

We have three key things, that we really want to impress upon you today. One, we are right on strategy and we are right on plan. And it's a great strategy and it's a great plan. We are on the right path towards balanced growth in our most developed market, which is North America and we are starting here in 2020 back on to a -- path of balanced financial delivery. But first, a word from our lawyers and our forward-looking statement disclaimer, which I know you all know very well.

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Now let's turn to our first message that we are right on strategy and right on plan. When I say that I mean that nothing has changed from what we have told you previously, not our strategy, not our approach, not our results. We have done exactly what we said we would do. And by doing what we said we do, we are entering 2020 from a position of real strength. We are making very real progress on our Deploy for Growth strategy, big actions have been taken and results have clearly improved. We have a stronger portfolio today, more geared towards long-term growth. We are back in organic net sales growth, which was our priority for last year and the most challenging aspect of any return to sustainable earnings and cash flow growth.

We are gradually improving our profitability, something we can give more focus to now that we have the top line growing again. And we have a stronger balance sheet, after paying down a good portion of the debt taken on to make strategic acquisitions in recent years. Simply put, we enter 2020 in the best condition in a very long time. There are four reasons that we believe you should have confidence that this progress is indeed sustainable; execution, portfolio, results and investment.

I'd like to take a little moment to discuss each in turn and let's start with execution. Our Deploy for Growth strategy is not just words on paper, it's driving change in behavior in big, tangible ways. Deploy for Growth is directing us to win through occasions. In 2019, we launched our best slate of innovation in years. We expanded pack formats and we got better at revenue growth management. Deploy for Growth has us focused on building and growing world-class brands. That's why in 2019, we continued to invest behind and grow our biggest most advantaged brands, while planning to extend our revitalization efforts to other brands this year. Deploy for Growth also has us focused on executing what we call perfect service and perfect store. In 2019, we made good progress on our sales strategy and on our service, which was recognized in third-party surveys like Kantar. This improved execution will continue in 2020.

Now let's turn to portfolio. We continued to shape a growth portfolio in 2019. In developed markets snacks, we divested non-core businesses to give us greater focus, while improving the growth and margin profile of this business. We also sustained momentum in the powerhouse brands that we had invested to revitalize back in 2018.

In developed markets cereal, we continued to improve our international performance by executing our playbook more effectively. In the US, we elected to harmonize pack sizes, pausing our brand investment during the first half of 2019. But we began to restore commercial activity behind the US business, seeing much improved performance in the fourth quarter and putting it on track to follow the stabilized results that we have seen in equally mature markets like the United Kingdom and Australia in 2019.

In developed markets frozen foods, we reaccelerated growth in our leading plant-based meat alternatives brand, MorningStar Farms and we sustained growth in Eggo by extending more deliberately into pancakes and French toast. We also took steps to focus and strengthen our overall frozen portfolio by phasing out non-core items and categories. And in emerging markets, Multipro, our distributor business in West Africa, sustained strong growth even despite challenging macro conditions. We invested in local production capacity in several emerging markets to facilitate long-term growth. And we rapidly built up a new leg of growth for us, the very exciting noodles business in Africa. So there is no question, no question at all that our portfolio is more geared toward growth today than even just a year ago.

Now let's talk about our results. If you want proof that Deploy for Growth is working across our portfolio, consider a few things. We grew our organic net sales in all four quarters with full-year growth in all four regions. We utilized revenue growth management to restore positive price realization in all regions. And we improved our end market performance in key countries and categories. If you go a layer deeper, you'll find that what is driving our growth, are our largest and most differentiated brands.

Globally, our top five brands accounted for roughly 40% of our net sales in 2019 and dramatically accelerated their growth as you can see on this chart. Among them, Cheez-It grew double-digits in 2019 and Pringles and Pop-Tarts, both grew in the high-single digit rate. Rice Krispies grew at a mid-single digit rate led by Treats and of these only Special K declined.

Our top 10 brands, which are close to 60% of our global sales also accelerated dramatically with brands like Froot Loops, Eggo and Corn Flakes adding to the top five's growth. So Deploy for Growth is clearly delivering improved

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topline growth and doing so in a broad based sustainable way. And that brings us to our fourth reason to be confident in our turnaround and that's investment.

You'll recall that starting in the fourth quarter of 2017, right through Q3 2018, we boosted brand building investment significantly. This was mostly funded by savings from our DSD exit. So we did direct it primarily toward our biggest US snack brands. This investment was over and above, what would be considered an ongoing level of investment, and it was aimed at revitalizing these brands.

As shown on this slide, this investment restored or accelerated growth in our biggest snacking brands in 2018. And this growth was sustained in 2019, even without repeating that incremental investment. In 2020, we have the opportunity to do a similar infusion of investment, albeit at a smaller increment and targeted to other portions of our portfolio. There are cereal brands in particular that we're targeting this towards, mainly in the US, but not solely in the US. It's also RX, which is ready to boost brand awareness now that it is passed last year's supplier-related recall. It's also against MorningStar Farms, which we are ready to extend into another part of the store, under a new sub-brand, which I mentioned earlier, very excited about the launch of Incogmeato. Chris will talk about these in a moment. But, please keep in mind that this incremental investment is not only in North America. Europe, for example, is investing to revitalize key brands as well. The important point here is that this incremental investment is proactive and it's opportunistic. And it should be viewed as yet another reason for confidence in our ability to deliver consistent growth. Important to put this incremental investment into the context of what we are trying to achieve.

Specifically, now that we have topline growing again, we are aiming towards balanced financial delivery. This means sustaining organic net sales growth, and it means putting even more focus on stabilizing and ultimately improving margins, while investing for continued future growth. I recognize that some with shorter investment horizons may be disappointed that we aren't letting more profit flow-through to the bottom line this year.

However, being able to grow our base business operating profit by a couple of percent in a year in which we are also injecting incremental brand investment, we think it's a great start towards balanced delivery. It's also remember roughly a positive 4 percentage point swing from our 2019 base business performance. Also keep in mind that we're making this incremental investment from a position of real strength. We just came on a year of broad based organic net sales growth and in the second half, a return to operating profit growth, excluding the divestiture. This is anything but investment out of urgent need. This is investment in sustaining steady, dependable, balanced growth well into the future.

Now let me turn it over to Chris Hood, who runs our largest region, North America, because not to put pressure on Chris, but if we're going to get through a path of steady, dependable, balanced growth we need our largest region to lead the way. Chris?

### **Chris Hood, President, North America**

Thanks, Steve. Good morning, everyone. Good to see all of you again. So Steve gave a lot of reasons why as a total company, we're in much better shape heading into 2020. And we can definitely say the same thing about Kellogg North America. There is no question that 2019 was a really important year of change for us, a pivotal year. We entered 2019 with an entirely new organizational structure. And as you'll recall, we consolidated a single US retail sales force, which made a big difference in our in-store execution with customers. We eliminated silo-like business units in favor of managing resources more holistically across the region. We reduced layers, giving us better visibility and faster decision-making and allowed us to address stranded costs associated with the divestiture. We also revamped our portfolio, the divestiture of the cookies, fruit snacks, pie crusts and ice cream cones was an important move for us. It reduced complexity and allows us to really focus on our core businesses and core brands, all while improving our overall growth prospects and gross profit margin.

And separately, we also strengthened our portfolio by beginning to more actively phase out certain non-core offerings. Again, all to achieve better focus, better growth and better profitability. And we did a lot of work to enhance capabilities. Most visible of course was the restoration of our innovation pipeline, big innovations, Cheez-It Snap'd,

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Pringles Wavys, the Poppers from Rice Krispies Treats and Pop-Tarts Bites, which was an absolutely phenomenal success last year.

So we had our biggest innovation year in a long, long time. And we elected to harmonize our pack sizes in cereal, in order to improve the shelf and to be able to cross promote our brands, more effectively. Within our supply chain, we made some capacity changes and established centralized packing centers. And more broadly, we enhanced our integrated planning processes and our analytics, and we stepped up our game in e-commerce and got a lot better at revenue growth management. That's a lot of change in one year, but it's definitely change for the better.

So like the total company, Kellogg North America enters 2020 in a much stronger position than last year. Our portfolio is more focused on growth categories and differentiated brands. We are executing much better a year into our new organization, driven by the capabilities that we've enhanced, RGM, e-commerce, analytics and integrated business planning.

We've accelerated our consumption overall, giving us better momentum than we've had in a long time. We've made some important investments and moves within our supply chain, adding capacity in places where we've been constrained from innovation like Cheez-It Snap'd to On the Go formats like Pringles Snack Stacks. And we're poised to make incremental brand-building investments, as we revitalize additional elements of our portfolio, and even extend the growing brand MorningStar Farms into a different area of the store. So let me give you a little bit more color on some of these elements.

First, our portfolio is now more focused on highly attractive growth categories. We entered 2019 with eight major categories including a cookies and fruit snacks business that simply wasn't core for us. We enter 2020 focused on six very attractive categories as shown on this slide. Cereal is currently in modest decline as a category in measured channels, but we'll be investing to bring that back to growth over time. But look at the consistent growth of the snacking categories and the growth in our frozen categories.

Next, look at how we've improved our consumption and share performance within these categories. Between accelerated growth and key brands, the addition of RXBAR and our divestiture of non-core declining businesses, our portfolio in 2019 was not only focused on fewer major categories, but we grew faster in them. Specifically, we grew nearly 2% year-on-year in our top categories in the US in 2019. And that's a notable acceleration from prior years. This 2019 growth in core categories is partially offset by phasing out some of our non-core products and categories, but that will only further focus the portfolio as we look forward.

So, stronger growth categories, stronger competitive positions, revitalized brands and greater resource and executional focus are driving an improvement in our results. This gives us momentum going into 2020. So let's talk about how we plan to sustain it.

We will start with our biggest category, snacks, which represented more than half of our net sales in 2019. You can see here that after exiting DSD in 2017, with some disruption that year, we came back and revitalized key brands in 2018 using the DSD exit savings to fund investment. That restored growth for us in each of our US snacks categories; crackers, salty and portable wholesome snacks. And in 2019, we sustained growth in all three of the categories and held or gained share as well.

Even more promising is the fact that our growth is being driven by our biggest and most differentiated brands. Our top five US snack brands are shown on this slide. As you can see in 2018, these five brands accounted for just under 60% of our US measured channel snacks consumption, which then included cookies and fruit snacks. Led by these brands, nearly 8% consumption growth, our US snacks consumption grew nearly 1.5% that year in 2018.

Fast forward to 2019, following our divestiture of cookies and fruit snacks, the same top five brands now represent three-fourths of our US snacks consumption, and they accelerated their collective growth to almost 10% year-on-year, driving acceleration in our overall snacks consumption growth to more than 4.5%. Reshaped portfolio, revitalized brands, strong innovation, all driving improved results. For 2020, we know we have to lap an unusually strong year for innovation. Nevertheless, we feel we have strong commercial plans to succeed and I'll quickly take you through some of those examples.

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Pringles recorded solid growth again in 2019, even against a very tough 2018 comparison. We will continue to grow this brand behind strong commercial programs from advertising during the Super Bowl to extending the Wavy line we introduced last year, to capturing more On the Go growth now that we've added new capacity on Snack Stacks.

Then of course, there's Cheez-It, our biggest snack brand. We generate extremely high return on investment on our brand investment on Cheez-It. And we'll continue to support the core in 2020 with innovation, effective advertising and tie-ins to major sporting events. We will also continue to invest behind the new Snap'd platform. It was an incredible success for us last year. So, successful that we are capacity constrained for the second half of the year. Now we're fully off allocation and we have increased capacity coming on line this year. So we're pretty excited about that.

Rice Krispies Treats is a powerhouse brand that just keeps growing. 16% growth on a brand this size is not too shabby. Last year, we introduced the Poppers platform and we will add to that in 2020 and we'll also continued to build the brand with its effect award-winning advertising campaign via TV, digital and social media engagement to reach more consumers with ooey, chewy, gooey goodness.

Pop-Tarts surged back to growth in 2019, both in its core offerings and with incremental Bites innovation to access a new snacking occasion for the brand. We've also just launched a distinctive pretzel flavor, which we unveiled with the brands first ever Super Bowl ad. It's a great combination of sweet and salty, I encourage you to try it. Look for our new Froot Loops flavor, demonstrating how we can leverage our own equities for food news. And we'll continue to expand the Bites line with new flavors and On the Go offerings.

RXBAR's expansion in 2019 was interrupted by a supplier-related recall early in the year. We've rebuilt distribution and now we have the opportunity to invest in advertising that can further drive brand awareness. This will accelerate velocities and get this brand back into strong growth. In the meantime, we'll also continue to see growth in unmeasured channels such as e-commerce and away from home. RX is also expanding its offerings to great platform for innovation. In 2020, we're launching minis for additional On the Go occasions. We'll continue the gradual expansion of nut butters and we're repositioning the RX Kids bar range. We've also launched a single serve, hot oats offering, which will be expanded at a measured test and learn pace. We will invest more this year on RXBAR, but it's worth it. It has clean ingredients and high protein, right on trend and this brand will be back in strong growth in 2020.

Now, let's turn to cereal, which was about a third of our North American sales in 2019. As you know in the US last year, we made a decision to harmonize our pack sizes to make our brands more shoppable on the shelf and to give us the ability to merchandise more combinations of brands together. We executed in two waves across the first half of 2019. And in the process, we had to pull back commercial support during that time. The result was lost share and consumption, but it was the right thing to do for the long-term health of this business. Now it's fully behind us and we resume normal levels of commercial activity starting in late Q3.

As you can see on the chart, this resumption of activity dramatically moderated our share declines in Q4 and our shares stabilized further in January. And that's just a function of getting back to normal activity. We are also going beyond just replenishing the brand building we pulled back during last year's pack harmonization. We're adding incremental investment aimed at revitalizing key brands and boosting our innovation. We are committed to winning and expect success in this category and we definitely expect improved results in 2020.

For competitive reasons, I'm obviously not going to go into everything that we have planned, but I will give you some examples. Let's start with bringing more -- bringing more taste and fun in 2020. This is the segment of the category that's been growing and in fact if you look at this segment of the category was up 1% in 2019. We gained share by bringing back fun and excitement to our biggest brands in the second half of the year. And we'll continue to step-up in activity in 2020. Toucan Sam is being reintroduced to a new generation of consumers. We're launching even more licensed property cereals, seasonal and otherwise to drive increased news and excitement. We're even co-branding with our own equities, launching two new flavors of an Eggo cereal, which is already performing very well in market. Net, more taste, more fun, more excitement in this segment of the category.

We've also already launched a major program behind our biggest cereal brand, Frosted Flakes. Mission Tiger is an integrated campaign that connects a social mission, contributing to school sports programs with broader re-engagement

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with consumers. It included named sponsorship of the Tony the Tiger Sun Bowl earlier this year and we'll tie to other events as the year goes on. It also has a huge social media component and endorsement from big time athletes like Ben Simmons, Ed Reid and Julie Erts.

During Q4, Frosted Flakes consumption grew 3% behind this program. So we know it's effective, and this is very encouraging for 2020 as we build momentum on our biggest cereal brand. It's equally important to emphasize the wellness attributes of cereal, because that's what brings the category back to growth. So we will elevate cereals' wellness credentials and bust some myths with a Did You Know promotional campaign, leveraging social media and in-store signage. This approach has been very successful in Canada and we're reapplying it to the US and we'll get sharper on, on-pack claims like the protein fiber and sugar claims featured on this slide.

We are also going to revitalize some other key brands by sharpening their positioning. For example, focusing on quality ingredients for Special K behind the Can't Flake Delicious campaign on the satiety of Mini-Wheats behind One Bowl and You're Good to Lunch campaign and great taste food and fiber content of Raisin brand. We will also continue to innovate behind our natural and organic offerings. We will extend our Kashi brand, including the core line, the Go line and our popular Kashi by Kids line.

We'll also continue to expand Bear Naked, which is the number one granola brand in the US. In what we are calling the year of the Bear, we are launching Bear Naked's first national media support, raising awareness for this gem of a brand. Meanwhile, we will extend our Bear Naked product line into grain-free and gluten-free offerings, as well as launching more premium offerings as shown on the slide.

In cereal, this year we're targeting new occasions like snacking. As we've discussed many times, our breakfast consumption has grown to nearly one-third of overall cereal consumption. So On the Go snacking with cereal is a great opportunity for us. To that end, we are expanding our On the Go Bear Naked Bites and in the second half of this year, we'll be launching new Jumbo Snax versions of some of our tastiest cereals. Importantly, we will also be more active in store.

I already mentioned, the ability to promote combinations of brands. Now that our pack sizes and prices have been harmonized. This enables us to create stronger cross promotion and really leverages the breadth and scale of our portfolio in store. We also have broader consumer promotions that have important in-store elements. This ranges from wellness awareness displays and signage to promotions around major sporting events and movie releases like SpongeBob. So we're back to playing our game in cereal and we're playing to win. I have just giving you some examples, but that should give you a fresh sense of energy backed with increased investment for our cereal business in 2020. And we are confident that this will result in much improved performance going forward.

Now let's turn to our frozen foods business, which accounted for more than 10% of our North American sales last year. Eggo is a great brand, which defines the category, where it competes. In what we call the from the griddle segment of categories that would be waffles, pancakes and French toast, Eggo grew again in 2019 in spite of lapping two years of exceptional innovation-led growth. In 2020, we're bringing taste and texture renovation to our core waffle platform, while building on last year's expansion of pancakes and the successful launch of new French toast. We will also continue to extend and advertise our premium waffle line Thick & Fluffy. Meanwhile, our Kashi brand is also moving into high protein offerings in 2020.

It's in our MorningStar Farms plant-based protein brand, where we have one of the biggest opportunities. Consumer demand for plant-based protein is rising for dietary and environmental reasons, and this is accelerated the frozen plant-based category to high-single digit growth in recent quarters. Our MorningStar Farms brand accelerated to double-digit growth, gaining share as a result. This reflects the strength of our brand, the quality of our food, as well as effective brand building aimed at expanding household penetration. We are gaining distribution and we're growing across product types.

And we will leverage these factors again in 2020. We'll be launching several exciting new innovations, while overall -- overhauling our packaging to be Instagram-worthy. We will also continue to drive trial and household penetration through effective brand building programs. So, we expect continued strong growth from the frozen side of MorningStar

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Farms this year. But as you know, we're also entering into the refrigerated section of the store with a new sub-line called MorningStar Farms Incogmeato.

I hope you had a chance to try some of the Incogmeato burger and sausage products at breakfast this morning. The ready-to-cook side of plant-based meat alternatives is in very early phase of consumer awareness and development. To further drive household penetration and adoption, Incogmeato will give MorningStar Farms a presence in the refrigerated meat section, making it easier for the consumer to shop for meat alternatives. This ready-to-cook format also present excellent opportunity to expand our offerings in the foodservice, K-12 school and college and university channels.

We have the right to win. We have better food, crafted with simple ingredients, a positive nutrition profile versus meat, a brand that is very well known for high quality food and great taste and a well-established supply chain. We have launched burgers at the end of Q1, followed in Q2 by sausages, others will follow in subsequent quarters giving us a steady flow of news in the category. And consumer reaction -- customer reaction and consumer reaction has been very positive. Like any launch, this is going to require upfront investment, including brand building before it generates net sales at scale. But we think you will agree that this will give us yet another leg for growth in Kellogg North America.

Finally, when discussing Kellogg North America, I have to mention the good work that we're doing in our Away From Home business. Our Away From Home business continues its track record of consistent growth, outpacing the foodservice, convenience and vending channels in many categories. And it also continues to be a strong source of innovation for us. And in e-commerce, we continue to see strong growth, well above 30% and still only about 3% of our sales. We've invested in digital capabilities and continue to build winning share positions and strong growth. These channels will remain key expansion focus areas for us in 2020.

So in summary, like the rest of the Company, we are building a foundation that puts Kellogg North America in steady, dependable, sales and profit growth. We made enormous changes in 2019 and improved our results along the way. Now we have the opportunity to sustain momentum in our snacks and frozen breakfast businesses, while investing to jumpstart our cereal business, reaccelerating RX growth and accelerating our growth in plant-based protein. All the while, we're extremely focused on executing the productivity initiatives and revenue growth management actions that help us continue to restore our gross profit margins.

Operating profit growth, excluding the divestiture will be modest this year because of the investments that we're making. But these investments will pay off over time. The important thing is that we're doing all of this in the right way. To revitalizing our brands, driving strong and sustainable innovation, honing our capabilities and executing better than ever.

Now let me turn the podium over to Amit who will put it altogether from a financial standpoint.

### **Amit Banati, Senior Vice President and Chief Financial Officer**

Thanks, Chris. Good morning and thank you for your interest in Kellogg. I'm delighted to be here this morning presenting for the first time as CFO. Looking back for a moment, there is no question the Company is in much better condition with much better prospects than when we were here at last year's CAGNY. Since that time, we have made tangible progress in several financial aspects. We returned to organic net sales growth with growth in all regions and revenue growth management actions that drove price realization.

Importantly, this growth was underpinned by strong end market consumption. We made steady progress towards restoring our gross profit margins. We're not quite where we want to be yet, but we made important progress in 2019. We continued to invest in the future. We have new innovation platforms in the marketplace, and a refilled pipeline. We added capacity for growing brands and emerging markets. We delivered on all metrics of our financial guidance; net sales, operating profit, earnings per share and cash flow. And by paying down debt, we strengthened our balance sheet. As Steve said, we entered 2020 from a position of strength.

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Indeed, with the end of 2019, we closed another key phase in our financial turnaround. The objective for 2018-2019 was to restore top-line growth and we've done that. We now shift our focus to balanced financial delivery, balancing topline growth with improved profitability and increasing cash flow.

Firstly on topline growth, the segments of our portfolio are generally performing according to their respective growth roles, putting us on track for sustainable organic net sales growth. Developed markets snacks in 2019 finished at the high end of its long-term growth target of low-single digit growth. And we feel good about our plans for 2020. Developed markets cereal in 2019 didn't reach its targeted long-term outlook, as we took a step back in the US amid our pack-size harmonization,. However, our international businesses did continue to stabilize, declining less than 1% in 2019. And we have stronger plans and increased investment aimed at catching up our US business in 2020.

Developed markets frozen in 2019 settled into its long-term target of low-single digit growth though it reaccelerated to faster rates in the second half. We have strong plans for 2020 both for Eggo and MorningStar Farms and we are investing in an extension of the latter into the refrigerated segment. This is upfront investment, but it is expected to pay off in incremental growth over time.

And finally, our emerging markets which represent over 20% of our Company's sales. Our long-term target for the segment of our portfolio is mid-single digit growth. And it has been performing at the high-end of this range. So we feel good about sustaining our topline growth. Now with each of the portfolio segments pointed squarely towards its long-term topline growth target. We can start to bring the operating profit along with it, expanding margins along the way. Each portfolio segment has different fundamentals, but each should be able to contribute to the Company's return to operating profit growth. Investment levels may vary depending on the opportunities presented in any given year, but the factors that can drive margin expansion in each region and each segment are now firmly in place.

To ensure, we are balancing that topline growth with margin expansion and cash flow generation, we are bringing significant organizational focus to our underlying operating model. These profit growth and cash growth gears are what ensure Deploy for Growth is balanced and sustainable. Specifically, they guide the organization to focus on balanced financial delivery, growing net sales, operating profit and cash flow, year-in, year-out and in a way that is sustainable.

Both gears has sub metrics that have been deployed through the entire organization. And they are embedded in our financial targets and our regular business reviews. Gross profit margin and cash flow are of particular importance. Critically, these gears are aligned with our incentive compensation. The good news is that the balanced financial delivery actually started in the second half of 2019 when we returned to profit growth in the second half, excluding the mechanical impact of our divestiture.

This balanced growth continues in 2020. Our 2020 guidance calls 1% to 2% organic net sales growth to be accompanied by roughly 2% operating profit growth, excluding the divestiture. On the same ex-divestiture basis, this implies a sizable positive 4 point swing in operating profit performance, despite an increase in brand investment. This operating profit improvement along with fewer cash outlays for restructuring and flat to lower capital expenditure, will drive our cash flow back up to the level of 2018, despite the absence of our divested businesses contribution.

We are focused on cash flow and we will improve it. This cash flow will be used to sustain our very attractive dividend, as well as to further improve financial flexibility by paying down debt. In sum, we will continue to do the things we did in 2019, albeit with greater balance between topline growth, profitability improvements and investment. We will sustain organic net sales growth. We have guided to an organic growth rate that is consistent with what we have guided for and delivered in 2019 and a rate, we believe is sustainable for our portfolio. We will continue to gradually improve our gross profit margin. Gradually, because of the ramp up of new production facilities and some cost elements that we are still addressing. But we will continue to make progress and at least stabilize this important metric in 2020.

We will again invest in the future. In 2020, this will be more in the form of brand building investment, as we add incremental investment behind various parts of our portfolio that did not receive funding the last time we had such an infusion back in 2018. These are attractive investments that should have long-term benefits. We will again deliver on our financial guidance. We have offered guidance that we believe is appropriate for balancing risks and opportunities. And we take very seriously our role as a dependable company in your investment portfolio. And we'll again strengthen

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YTD Change(\$): -2.81000152588  
YTD Change(%): -4.063

Bloomberg Estimates - EPS  
Current Quarter: 0.911  
Current Year: 3.861  
Bloomberg Estimates - Sales  
Current Quarter: 3298.625  
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our balance sheet. Another year of debt reduction will reduce our leverage and keep our powder dry for future investments.

I'll now turn it back to Steve for closing remarks.

## **Steven Cahillane, Chairman of the Board and Chief Executive Officer**

Thank you, Amit. And thank you, Chris. We've always said and consistently said that the first and hardest step toward turning around our results would be getting the top line growing again. Now that we have, we can concentrate on delivering the balanced, sustainable financial results that you look for in a company like Kellogg. But there is more to balance than just the financial results. We also want to balance our financial delivery with social responsibility. What we refer to internally as our heart and soul. This isn't something new to Kellogg. It was embedded into the Company by our founder exactly 114 years ago.

We have ambitious targets and initiatives, supported from our Board, down through the organization on everything from feeding people in need, to assisting farmers, to reducing emissions, from creating a diverse and inclusive workplace to giving back to all of our communities. We're transparent in our disclosures and proud of our progress. And I urge you all to review our latest Corporate Responsibility Report. Well, it's nice to be recognized for these efforts. That is not why we do it, it's just part of our culture and the kind of company we strive to be.

So in summary, we are making great progress in our turnaround. We know we still have work to do, but we're doing exactly what we said we do and the results have come in just as we said they would. Our portfolio has been reshaped for growth and Deploy for Growth has us winning again in the marketplace. We are now focused on balanced financial delivery, the kind that can result in consistent, dependable growth, year-in and year-out. And as always, we are committed to our legacy as a company with a heart and soul.

In short, we believe we're becoming the type of company that is a dependable investment for all of you. And so now with that, we'll be happy to open it up for questions.

## **Questions And Answers**

### **Unidentified Participant**

Thanks, good morning. You've done a great job with the snacks business, some of those turnaround plans with the On the Go packaging, the marketing reinvestments and clearly those businesses are not only growing rapidly, but they seem going well for some time and the category, that's also been growing. Obviously cereal feels different. You're trying to bend the trend in the category. One of the things we're struggling with is executing better on taste to licensing the cross promotion, the stuff that you've talked about. Is that the kind of thing that will -- can drive sustainable growth in the category? And to what degree do you feel like you need to have a wellness pillar or two that you need to invigorate to really get this thing up and going in a sustainable way like you've done for snacks? Thanks.

### **Steven Cahillane, Chairman of the Board and Chief Executive Officer**

Great, thanks for the question. I'll start and Chris and Amit can both add in. We believe it's a both. It's an and. So having a taste-fun segment that's growing is an important part of driving sustainable growth into the category. But we also believe a health and wellness component is important. And if you look at the long arc of history in this category, having both working and in particular the health and wellness has been important to the long-term health of the category.

So as Chris outlined, we are very excited and enthusiastic about what we have going on in our taste-fun. You saw the numbers on Frosted Flakes, for example, back to 3% growth in latest results based on Mission Tiger. We're going to

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continue that. We've got really exciting things happening as Chris outlined in Froot Loops and other brands in the taste-fun segment. And we know we have to do better in the health and wellness segment and we started to make the turn on Special K that's decline has moderated. We know the work we have to do in Frosted Mini-Wheats as another example and we're on that as well. And -- making the food relevant for today's consumer around health and wellness is important and a lot of the innovations that we have coming address exactly that. So the short answer is, we believe it has to be both and we really like our portfolio and the fact that we play in these multiple categories across. And recognize that 2019 was a year where we went through a tremendous transformation. In 2020, we've set the table to do much better in all those categories. I don't know if you want to add any?

## Unidentified Speaker

David?

## David Driscoll, Analyst

Thank you. David Driscoll. So just two from me. The first one is there is modest inflation going on in the year, Amit. I'm just curious why we're not seeing or expecting stronger gross margin improvement, productivity, revenue growth management. It's just that modest inflation just seems like it would be a much better opportunity for 2020 and the gross margin. And then for Chris on Incogmeato, can you just give us a little understanding as to the plans for how rapidly the brand will expand ACV so just kind of any sense as to how we should think about, how rapidly this new brand will hit shelves in -- maybe the potential? Thank you.

## Amit Banati, Senior Vice President and Chief Financial Officer

So I think just on gross margins through the course of 2019, we made sequential improvement in our gross margin every quarter. And you know the plan is to continue to make progress on that. Inflation is moderating from what we saw last year, but some of the materials like sugar, potatoes is inflation -- is turning inflationary now. I think we have some short-term cost issues we are addressing. I talked about ramp up or in production of facilities in emerging markets. But overall, from a 2020 standpoint, we did want to stabilize our gross margin.

## Chris Hood, President, North America

And on Incogmeato, as I said, we're planning on launching the burger here in March. So, and we will bring the broader line sausages, pound of ground (inaudible) pound of ground, which is the un-formed meat as well as some other offerings later in the year. I expect the burger segment of the category is pretty crowded already. So that's why we believe that we really need to play with a broad lineup of offerings and really bring some scale to that segment. I think you'll see mid year to late in the third quarter pretty strong presence from our standpoint.

## Unidentified Participant

Okay, all right. I think we need to take it over to the breakout. Please join me again in thanking Kellogg for breakfast this morning.

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