Company Name: Kellogg
Company Ticker: K US
Date: 2019-05-02
Event Description: Q1 2019 Earnings Call

Market Cap: 19,722.59
Current PX: 57.38
YTD Change($): +.37
YTD Change(%): +.649

Bloomberg Estimates - EPS
Current Quarter: 0.938
Current Year: 3.896
Bloomberg Estimates - Sales
Current Quarter: 3409.857
Current Year: 13565.250

Q1 2019 Earnings Call

Company Participants

- John Renwick, 'Vice President of Investor Relations'
- Steven Cahillane, 'Chief Executive Officer'
- Fareed Khan, 'Senior Vice President Chief Financial Officer'
- Amit Banati, 'Senior VP & President of Asia Pacific'

Other Participants

- Laurent Grandet
- Robert Dickerson
- Jason English
- Alexia Howard
- Chris Growe
- Robert Moskow
- Ken Goldman
- Bryan Spillane
- Priya Ohri-Gupta
- David Driscoll
- Eric Larson

Presentation

Operator

Good morning. Welcome to the Kellogg Company First Quarter 2019 Earnings Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer period.

(Operator Instructions) Please limit yourself to one question during the Q&A session. At this time, I will turn the call over to John Renwick, Vice President of Investor Relations and Corporate Planning for Kellogg Company. Mr.Renwick, you may begin your conference call.

John Renwick, 'Vice President of Investor Relations'

Thank you, Gary.

Good morning, and thank you for joining us today for review of our first quarter 2019 results and update of our full-year 2019 outlook. I'm joined this morning by Steve Cahillane, our Chairman and CEO; and Fareed Khan, our Chief Financial Officer, who is announced that he will be leaving Kellogg this summer. Therefore, we were also joined by Amit Banati who is on the call not only is our current President of EMEA but also as our incoming CFO Slide number three shows our usual forward-looking statements disclaimer. As you are aware, certain statements made today such as projections for Kellogg Company's future performance 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 this third slide of the presentation as well as to our public SEC filings. A replay of today's conference call will be available by phone through Thursday, May 9. The call will also be available via webcast which will be archived for at least 90 days.

As always, when referring to our results and outlook, we will be referring to them on a currency neutral adjusted basis unless otherwise noted. And now, I'll turn it over to Steve.

Steven Cahillane, 'Chief Executive Officer'

Thanks, John and good morning, everyone. I think it's appropriate to start the call with our news of a transition in our Chief Financial Officer role.

As you saw in our press release, Fareed will be leaving the company following the completion of our second quarter. Fareed has contributed mightily to the completion of project K and to the creation and launch of our deployed for growth strategy. He shown a real passion for growing our business and he's been a valued partner to me and to our entire executive committee. So thank you, Fareed for your service.

We are fortunate to be able to name a fellow Executive Committee Member Amit Banati to succeed Fareed. Most of you already know Amit, who has been a driving force behind the transformation of our Asia-Pacific, Middle East and Africa business. Not only does he have EMEA on track to more than double in size during his tenure, but he has diversified its portfolio, improve the margins of the base and posted consistently solid results. What you may not know about Amit is that he earned his finance rights early in his career, which makes him a particularly effective and financially oriented General Manager.

Because these two gentlemen have worked together for the past couple of years, and because Fareed is staying on to ensure a smooth transition, you can be confident that this transition will be orderly and will cause no disruption to our plans, our results, or our transparency with investors. You'll hear from both of them momentarily. Turning to the quarter, I would describe our Q1 as on strategy and on plan. During the quarter, we took further decisive actions under our deploy for growth strategy.

Some of these are listed on slide number six. For instance, we continue to shape a growth portfolio, reaching an agreement to sell cookies, fruit snacks, pie crust and ice cream cones to Ferrero. While it's never easy to part with solid brands and talented employees, we feel good that they are all going to a quality company. And for us, this divestiture will focus our portfolio on our biggest snacking categories and brands, and improve our financial flexibility through a better margin mix and reduce debt.

We reached an agreement expediently and we'll likely record a small gain on the sale. So a very good outcome. Importantly, we continue to expand our emerging markets presence. Focusing on affordability and occasions, we have broadened our product line both in foods and packaging.

And recognizing the critical importance of distribution in these markets, we have bolstered our go-to-market capabilities and reach. As a result, our emerging markets had another strong quarter of organic net sales growth, and that does not even yet include the double-digit growth of our Nigerian distributor Multipro. We also continue to invest in capabilities and processes. As you know, we recognized our North America -- we reorganized our North America structure for a flatter more nimble organization.

As our new ways of working get refined, we should see greater agility and focus. We realigned global resources around key commercial priorities, and we invested money and resources into areas like digital and e-commerce. All of this requires investments upfront, but we will enhance our competitiveness. We're also on plan is described on slide number seven.

Last year, we invested in revitalizing key brands. We adjusted their positioning and their messaging, we've ramped up their brand support and commercial execution, and it's working. Brands like the ones listed here did swing into growth or accelerate in 2018, discontinued in 2019 with moderating investment behind these now revitalize brands, all according to plan. We spent the last couple of years enhancing our innovation capabilities and rebuilding a pipeline.

In Q1, we launched a significantly greater quantity and quality of innovation than we have in years. It's early days, but as we'll discuss in a moment, these innovations are off to good starts. We also invested in pack formats, such as retail ready cases, harmonize pack sizes in cereal and on-the-go and affordability offerings around the world, just as we said we would. Also as we previously communicated, we implemented revenue growth management actions in the marketplace, across the globe and across our portfolio.

Some of these actions started in late Q4 and some of them were implemented during Q1. Our international regions are showing solidly positive price realization already, while North America is just getting going but turned positive already. As a company, we returned to organic growth in net sales in Q1, and this was despite some headwinds in North America. As we'll discuss in a moment, our recall of certain RXBARs required inventory write-offs that our customers pressuring net sales and profit.

And we saw timing differences between shipments and consumption in certain categories, notably, US cereal. But behind these headwinds, with good growth on core brands in North America and our international regions continue to grow strongly. So we come out of Q1 on track for our first half and full-year earnings estimates. And our full-year guidance does not change, either safer layering on the impact of our already announced divestiture.

So we're on strategy and on plan. Now, let me turn it over to Fareed, who will take you through our financial results and outlook in more detail.

Fareed Khan, 'Senior Vice President Chief Financial Officer'

Thanks, Steve, and good morning, everyone. Let me start by saying how much I've enjoyed my time at Kellogg and working with all of you.

And I can assure you that you're in very good hands with Amit, and he'll continue to drive Kellogg in the right direction. Now to our results, our Q1 results are summarized on slide number nine. Let's first recall how we've indicated 2019 would play out. We said that organic net sales growth would improve gradually as revitalize brand, sustain momentum, as price realization improves and as Multipro anniversaries and contributes to organic growth in the second half.

We said gross margin would be down in the first half, willing to a tougher input cost comparisons, and the fact that are on-the-go price format margins remain a year-on-your negative until major corrective actions kick in during the second half. The result would be year-on-year decreases in operating profit during the first half, returning to growth in the second half, and we know it particularly difficult year-on-year comparisons for tax rate during the first half, further adding to its first half second half disparity on EPS Q1 played out according to the script. Net sales grew year-over-year including on an organic basis. Operating profit declined as we said it would because of higher input and mix related costs.

It actually came in a little ahead of our expectations in part because of some investment that we delayed. EPS was where we said it would be, largely because of the below the line items we've discussed previously. This EPS was ahead of our expectations, though much of this was timing and effectively comes right out of Q2. Our cash flow came down with a lower net income as well as the timing of tax payments and capital expenditures within the year.

However, Q1 is a seasonally light quarter for cash flow. It's important to note that cash from Q1 came in higher than we expected. Overall, these results put us right on track for the first half and full-year guidance, we gave back in February. Let's go into a little bit more detail.

Let's start at the top of the P&L with net sales growth in slide number 10. Obviously, much of our reported that sales growth came from the consolidation of Multipro into our results. This will anniversary in early May and Multipro's net sales will start contributing to our organic growth. A good portion of this was offset in Q1 by particularly adverse currency translation.

Due to a strong dollar year-over-year, dollar, as you know, begin strengthening and Q3 last year, and even strengthened further in Q1. Importantly, we return to net sales growth in an organic basis. Volume was down slightly year-on-your, going mainly to shipment timing in US cereal. Our price mix turn positive in Q1, as a result of revenue growth management actions we've been taking since late Q4.

Every region posted positive price mix and KNA's modest price realization would have been higher, were not for the write-offs trade inventory related to the RX recall. So slower start because of the RXBAR recall and the cereal trade inventory decrease, both of which should be Q1 specific events. Both these events you can clearly see, we are back on the road to steady organic growth. And our consumption trends confirm this.

Now let's turn to our gross profit margin on slide number 11. As expected, our gross margin declined year-on-year. Let's look at each of the three buckets we've been using to explain this margin pressure. The first is mechanical, about a 110 basis points of this decline was simply the mechanical impact of consolidating Multipro which was not in our P&L in the year-ago quarter.

We will have one more month this mechanical impact in April, after which Multipro will have a much smaller mixed related impact. The next bucket is what we call growth related. As in recent quarters, this bucket was negative year-over-year. One driver was the RXBAR recall which is now behind us.

But most of the growth rate impact in Q1 was ready to the mix and cost impact of our shift towards emerging markets, and notably towards our new pack formats in our North American snacks categories. We've talked about this in recent quarters, and you'll recall that our strategy or pursuing single-serve led to an aggressive increase in on-the-go SKUs along with an acceleration of demand for these products, and this resulted in sizable extra cost for redeployment, co-packing and even repacking. We have taken steps to mitigate this impact, such as SKU innovation and revenue growth management, but the bigger solves such as centralized packing centers and repatriated some co-pack volume don't kick in until the second half. The good news is that the impact in Q1 was as expected, and we expect to see less-and-less impact as the year progresses.

The final bucket is what we call ongoing. As we've discussed previously, this turn negative this quarter because of input cost inflation and the comparisons with last year. While exchange trade commodities have largely move sideways in recent months. Many of our very favorable edges from last year have rolled over, and we're experiencing accelerate inflation in fuel and various non-exchange traded inputs.

In Q1, we also faced our toughest comparison of the year, as a year-ago quarter was the one quarter in which our COGS rate was not inflationary. This was all anticipated when we spoke to you back in February, the good news is that we remain confident in our gross margin that we will get less-and-less negative as growth as a year goes on, and remember this will be driven by revenue growth management actions many which were implemented during Q1, efforts to restore margin on on-the-go items which will have a larger positive impact in the second half, and easier comparisons for ongoing input costs in the second half. As we make our way to EPS, it's important to remember some of the drivers below operating profit. Some of these are showing on Slide number 12, and selected to remind you, that there will be earnings, headwinds in the year.

The biggest headwind would in force was tax rate. Our effective tax in Q1 came into 20.5% right in line with our full-year guidance of approximately 21%. However, because of a sizeable discrete benefit in the year earlier quarter, this was a significant drag on EPS growth in Q1 as we have forwent. We face another comparison against the year-on-year -- a year ago discrete benefit in Q2.

Interest expense for example, was a $5 million year-on-year headwind, because the year ago quarter did not yet have the borrowings for additional stakes and Nigerian. Going forward, the year-on-year in interest expense moderates as we lapped this Nigerian investment although the rates are somewhere higher. Other income is down year-on-year as we've indicated, because of the impact on pension expense of higher interest rates and pension asset base that declined sharply with the financial markets last December. This will continue to be a drag Europe.

Before began our guidance for the year, it's important to discuss the only element of our guidance that's changing, our pending divestiture. So, let's go to Slide number 13. We'll begin by making sure everyone is clear on what we are selling. Well, we are selling the Keebler brand in the transaction amongst other brands, we're not selling the entire business that we acquired in 2001.

We're selling cookies, pie crusts and ice-cream cones collectively, which was a small portion of that acquisition plus fruit snacks. We are not selling the larger -- more profitable portion of that Keebler acquisition, which is Crackers. To give you an idea of the size of the business where divesting, we've disclosed previously, that they generated close to $900 million net sales in 2018, and about $75 million of operating profit including our owned direct expenses. As Steve mentioned, we are very pleased with these great brands and the talented employees are going to a company of forever's caliber.

Now, let's talk about the near-term financial impact of this divestiture. Slide number 14, reviews the details and the financial implications we disclosed in early April, when we announced we have the agreement to sell these businesses. We are still anticipating a close of the transaction at the end of July. There's still details to be worked out and we'll know more obviously in the coming months.

Of the $1.3 billion sales price, we believe the after-tax net proceeds will be somewhere between $900 million and $1 billion and our plan is to use all of it to pay down debt this will enhance our financial flexibility, and all of this was disclosed back in April. So, let's turn to our full-year guidance in Slide number 15. As we've mentioned, we're right on track for the guidance that we gave a few months ago. So, no change to our pre-divestiture guidance.

While we won't close on the divestiture transaction until the end of July, many of you have already adjusted your earnings models for this divestiture using the information we provided on our April 1st, announcements. We're making no change to that estimated divestiture impact today, everything remains on track. We can give you a little bit more detail on this divestiture impact and it's shown on Slide number 16. Let's take each metric concern a similar transaction closes at the end of July, which means that impacts Q3 and Q4.

Pre-divestiture currency-neutral net sales is expected to be up 3.4%, as previously guided, but divestiture would reduce this outlook by 2 to 3 points from losing the divested brands net sales for the five months or so depending on the closure date. There is no change to our outlook for organic net sales growth of 1% to 2%, organic by definition excludes any divestiture impact and while the absence of these business may improve our organic growth, it's a very slight impact over the next few months. Pre-divestiture currency-neutral adjusted operating profit is expected to be flat, for our previous guidance. But the divestiture would trimmed 4 points to 5 points less, due to not having the divested brands profit for five months.

This impact may seem large relative the true operating profit of these brands but remember, that much of the indirect expenses stay with us at least during the transition period before we can reduce them ourselves. Pre-divestiture currency-neutral adjusted EPS is expected to be down 5% to 7%, which has been our guidance. The divestiture as we have shared with you last month is expected to be less than 5% diluted, which would bring the EPS declined to something more like 10% to 11%. It's too early to call the impact on cash flow.

It'll depend on upfront costs related to the transaction, the transition of the businesses to the new owners and any business realignment required after the divestiture. And we're certainly keep you posted as we gain better visibility on this. These are the impacts for 2019, let's review the longer-term implications over the divestiture summarized in Slide number 17. Longer-term, this divestiture should have a positive impact on our long-term growth and return on invested capital.

Firstly, these are businesses that have not been reversed as much as many of our categories and brands and they've declined in recent years. Divesting them adds to our underlying growth portfolio -- profile. Similarly, because these businesses collectively generated lower margins in our portfolio average, divesting them adds to our margin profile. There's also a benefit of simplifying our portfolio and our supply chain.

We can reduce complexity with this divestiture offering opportunities for efficiencies. We can also better focus resources on our biggest and most profitable brands. And finally by using the proceeds to pay down debt, we can enhance our financial flexibility, this puts us in a better position to take advantage of high-return opportunities to invest. So, there's some very clear long-term benefits for making this transaction.

In summary, we feel good about our financial position coming out of Q1. We're making good progress on top-line growth with our biggest brands that our emerging markets leading the way. We're starting to generate the price realization needed to offset cost inflation, and we are taking steps to mitigate the margin drag of our on-the-go price formats in the US Our Q1 puts us right on track towards our original pre-divestiture guidance both for the first half and for the full-year. And there's nothing new to our full-year guidance, nor to the expected dilution from the divestiture.

We are on strategy and on plan. So with that, I'll turn it back to Steve, who will discuss the performance of each of our region.

Steven Cahillane, 'Chief Executive Officer'

Thanks, Fareed. Among the many signs that deploy for growth is gaining traction is the fact that our improvement in top-line performance is broad-based.

As shown on Slide number 19, each of our four regions is showing undeniable improvement. Yes, North America was still down in Q1, but we've explained the unusual factors that cause that. Write-offs related to the RXBAR recall, which is behind us and the shipment timing in US cereal. Even with these factors, North America is clearly progressing toward a return to growth.

And look at the three international reasons, Europe accelerated its growth, despite some very difficult developed markets, and Latin America and EMEA home to most of our expanding emerging markets businesses, both sustained the recent accelerated momentum. Let's look at each region intern. Let's start with North America and Slide number 20. We knew Q1 could be challenging because of everything we were implementing in the quarter.

For example, we moved into a completely new North America organizational design at the beginning of the year. Recall that this included the elimination of standalone business units, reshaping into specific category team supported by total North America sales, supply chain and support functions. This flatter and more focused organization will improve our agility going forward. Another major initiative, we launched the first phase of a Pack-Size Harmonization in Cereal.

This required working down inventories of the previous packs and getting the new ones on shelves. This isn't easy, but it will improve shop ability in the aisle and our ability to cross promote brands. And thirdly, we were in the midst of a product recall for RXBAR's. You may remember this was related to a third party supplier and an ingredient that contained a potentially undeclared peanut allergen.

We initiated the recall in December and then added skews in Q1, resulting in more write-offs flowing through net sales and delaying are restocking of shelves. The good news is that we made good progress and work through these headwinds as well as some trade inventory reduction in cereal delivering only modest declines in net sales and operating profit. Importantly, we launched our largest wave of innovation in several years. The outcome of investing in our capabilities and pipeline.

We also implemented various revenue growth management actions that began to restore positive price realization even in Q1. And we delivered good sales and profit growth in specially channels and in Canada. Let's take a closer look at each of our major category groupings in North America. We'll start with the biggest, Snacks shown on Slide number 21.

I mentioned the RXBAR recall. It was an unfortunate event, but we're proactively ensuring quality control with our suppliers. The good news is that our RXBAR is back on shelves in the latest four-week data shows ACV back above 70% where it was prior to the recall, and consumption up nearly 30% year-on-year. So, this should be behind us.

Excluding the recall impact, our North America snacks net sales grew at a mid-single-digit rate year-on-year, driving this strong growth is the momentum we've sustained in our biggest brands. Deploy for growth has us executing stronger brand building an innovation for these world-class brands as well as growing our On the Go formats to win occasions. Look at the strong consumption growth rates of these revitalized top five snacks brands. Pop-Tarts return to growth in the second half of 2018, and in Q1, we launched a new bites line which is off to a great start.

Cheez-It accelerated its growth and its new snapped line is off to a good start as well. Rice Krispies Treats, continues to grow augmented by its new Poppers offering and aided by newly added capacity. And Pringles continues to grow even on top of its year ago acceleration with new Wavys, also off to a good start. We've talked a lot in recent quarters about how we aim to correct are under indexing in On the Go offerings, like immediate consumption packs and multi and variety packs of single-serve items.

The chart here shows that our growth in these pack formats has continued to accelerate even as we have taken actions to shore up their margins. So, our North America snacks has underlying momentum. It's important to note that the top five brands shown in this slide account for more than 60% of our measured channels snacks consumption. So, they're revitalization and growth is a very important sign that we can grow this business.

Now, let's talk about Cereal shown on Slide number 22. We're disappointed by the start we had in North America cereal. As I mentioned, we knew the transition of certain brands to the harmonize pack sizes would create some initial softness, particularly as we held off promoting those brands. In fact, during the first two weeks of January, our consumption was down 6%.

But it was down only about 1% for the rest of the quarter, in line with the category during those remaining weeks. While our consumption trend didn't change much overall, our shipments definitely lagged in the quarter, suggesting a reduction in trade inventory. While sizable and fairly sudden this quarter, it is not uncommon to experience these timing differences. And this is probably more related to previous quarters timing differences, rather than to any new trend.

Among our brand, Special K had a very soft quarter. We knew it was lapping strong promotional activity in last year's Q1. It turned out to be the only one of our core six brands to lose share in Q1. And excluding this one brand, our overall consumption was flat and our share increased by 20 basis points.

Outside of Special K, our adult oriented brands gain share, thanks to our efforts to emphasize simple health and other wellness attributes. Corn Flakes had another great quarter. And Raisin Bran and Mini-Wheats also continue to rebound. We launched happy inside, a unique cereal that offers the digestive health benefits of having pre-biotics, pro-biotics and fiber all-in-one great-tasting cereal.

This will be a gradual launch but it gives you a glimpse into how we are thinking about next generation wellness trends. In the Taste/Fun segment, our big Frosted Flakes and Froot Loops brands held share and it's heightened competitive activity and we launched some promising innovation, notably Pop-Tarts cereal, Strawberry Rice Krispies and Honey Nut Frosted Flakes, each of which is off to a good start. We recognize that we have work to do to stabilize our cereal business, but we're making important changes and there are signs of progress. So, let's conclude our North America discussion with our frozen foods, shown on Slide number 23.

Frozen net sales were off about 1% year-on-year but that compares against a year-ago quarter in which its growth had accelerated to a strong double-digit growth both in net sales and consumption. We're pleased that Eggo posted consumption growth in Q1 on top of that strong year earlier gain. We continue to grow our highly successful Thick & Fluffy premium waffle line. We grew our Pancake business and we have exciting news with innovation on our core Kid offerings.

We will look to build on this momentum in Q2 with two exciting launches. A new higher protein offering called off the grid and a brand-new Thick & Fluffy French Toast line. Morningstar Farms is also lapping very tough comps. Innovation and good commercial execution is growing our business on the chicken oriented segment and we have more plant protein news and communication to come.

We feel good about our frozen business. So, overall North America did run into some headwinds in the first quarter. But the underlying business continues to improve. Let's now talk about Europe shown on Slide number 24.

Europe's consistent growth continued in Q1 with revenue growth management improving our price realization and good volume growth led by snacks. Pringles had an exceptional quarter. As you can see, we're well past comparing against the disruptions we had in early 2017 with the brand return the solid growth on top of growth. Driving this growth has been a very effective marketing campaign around gaming as well as the launch of Rice Fusion a rice-based crisp with Asian inspired flavors that is exceeding our expectations.

We also returned are wholesome snacks business to growth. Transforming this business was a priority for us this year, and we've gotten off to a better start than we anticipated. Driving this turnaround, our Special K behind new protein offerings, Rice Krispie squares in the UK and the launch of extra brand granola bars in Russia. We also continue to expand our natural WK Kellogg brand into wholesome snacks.

Our cereal sales continue to show the moderation of declines we realized in 2018, down only about 1% in Q1. The decrease was isolate is a challenging UK and France markets, despite good performance by focused brands like Extra, Crunchy Nut and Krave Tresor. The good news is that, we grew cereal sales virtually everywhere else in the region. And important element of our strategy is expanding our business in the emerging markets of Russia and Central Europe.

Russian net sales and Q1 again grew at a strong double-digit rate, both in cereal and in snacks. In cereal, our consumption in Russia was up over 20% gaining two points of share aided by the introduction of Extra brand granola. So, we're pleased with our start in Europe and our progress on key strategic priorities. We also had another good quarter in Latin America, as shown on Slide number 25.

Growth was again led by Mexico, our biggest market in this region. Mexico cereal consumption growth continue to accelerate as shown on this chart, and we continue to gain share behind strong commercial programs effective in-store execution and continued expansion in high-frequency stores. In Brazil, there is no question that the 2016 acquisition of Parati was a game changer for us. This business continues to pose strong net sales, consumption growth and shared growth across not only biscuits but also powder juices and other categories.

And it's helping us expand the rest of our portfolio in high-frequency stores. Across the region, Pringles continues to post strong growth. Argentina is a relatively small market for us overall, but it is an important market for Pringles and the economic and currency situation there certainly was a headwind. But, we grew the brand in Latin America despite that up double-digit outside Argentina.

We had some incremental investments in Q1, so the region's profit decline this quarter was only timing related. Latin America remains in a good position to continue to drive growth for the company. Now, let me turn it over to Amit for one final review of a AMEA Amit?

Amit Banati, 'Senior VP & President of Asia Pacific'

Thanks, Steve. Let me first state how excited I am for the opportunity to succeed Fareed as CFO Fareed has done a great job, and he lives the company in solid financial conditions.

It has been a pleasure working with him. And I'm sure, all of you have enjoyed working with him as well. I'll be working closely with him, during our transition over the next couple of months. And I look forward, to meeting all of you in the coming weeks and months as well.

So, let's finish our Q1 review with our Asia-Pacific, Middle East and Africa business shown on Slide number 26. As you know, our Middle East, North Africa and Turkey operations which we call MENAT were moved out of Kellogg, Europe and into this region. This consolidates all of our Africa businesses under a single leadership, and what an exciting opportunity Africa is for us. Our MENAT business posted double-digit growth in quarter one driven by growth in cereal, biscuits and noodles.

In West Africa, our operations with partner Tolaram continue to expand. Multipro, the West African distributor whose results are consolidated into us continue to grow at a double-digit clip in Q1. And not included in AMEA's net sales or operating profit, but equally exciting is the continued growth of do fill, the noodles manufacturer in West Africa, and the very strong growth in our joint ventures that manufacture and market Kellogg's brand of cereals, snacks and noodles. Pringles continued its consistent growth growing at a mid-single-digit rate even before including the year-on-year growth of MENAT With MENAT growth, our region's Pringles net sales accelerated to a strong double-digit gain across the region in quarter one.

The drivers of these growth remains strong commercial execution, geographic expansion and the expansion of more affordable pack sizes. And we should mention Australia, the most developed market in this region. Australia's net sales were up in quarter one, with good growth in Pringles. And even excluding Pringles, we grew in Australia continuing to show how we can stabilize and grow cereal consumption in a very developed market.

So, another strong performance by AMEA, and with the portfolio and geographic expansion we are doing in a region right with population growth and economic upside, AMEA is going to be a growth driver for Kellogg for a very long time. And now, I'll turn it back over to Steve to wrap up.

Steven Cahillane, 'Chief Executive Officer'

Thanks, Amit. Let me finish with Slide number 28.

As I said at the outset of this call, we remain on strategy and on plan. During Q1, we continue to take major actions to improve the trajectory of our company, from reorganizing our biggest region to shifting resources and enhancing capabilities. From continuing to invest in the revitalization of our biggest brands to continuing to expand our reach and portfolio in emerging markets. We even took another major step in our efforts to reshape our portfolio with the agreement to divest our cookies, fruit snacks, pie crusts, and ice-cream cones businesses.

We are confident that these great brands and the talented employees that manage them are going to an outstanding new home in Ferraro. And we come out of Q1 on plan. Our top-line improved despite some temporary headwinds and we have every reason to believe it will continue to improve. Our profit performance keeps us on track for our full-year guidance.

This guidance does not change, nor does the impact of the pending divestiture, which we disclosed back in early April. Deploy for growth is working. Our portfolio is being shaped towards growth, our brands are revitalized, our capabilities are being enhanced and we're becoming that much more competitive in the marketplace. As always, I salute our employees for their dedication and hard work to make all this happen during a period of incredible change.

Our people truly our competitive advantage. And finally, we wish Fareed the very best in all of his next adventures and we welcome Amit to his new role. And with that, we're happy to take your questions. (Question And Answer)

Operator

We will now begin the question-and-answer session.

(Operator Instructions) The first question comes from Laurent Grandet with Guggenheim. Please go ahead.

Laurent Grandet

Hi, good morning, everyone, and thanks for the opportunity. I'd like to focus on SG&A, significant improvement in SG&A, I mean this quarter despite.

You saying last quarter as you will continue to invest significantly behind your brands. So how should we understand the first quarter performance, is it just a phasing of marketing investment that has been pushed later in the year? Could you please give us more color here for the quarter? And how we should think about this SG&A going forward? Thank you.

Steven Cahillane, 'Chief Executive Officer'

Yeah. Thank you for the question.

And I'll start and maybe Fareed will build on it. From an SG&A perspective, it's important to note a couple of things, first on a currency neutral basis, SG&A was down about 2% year-over-year, so currency did help there. Brand building was also down year-over-year, as you'll recall we were laughing nearly $50 million increase that we put into the first quarter of last year. And so, we're lapping that.

We also delayed some brand building investment, particularly for RX, during its recall because you don't want to be advertising against empty shelves, for example. And also some capacity constraint items -- capacity constrained items and snacks and frozen as well as the SKU changes that were undertaking in cereal. Overhead increased mainly because of the Multipro consolidation and we continue to invest in capabilities such as RGM, e-commerce, integrated business planning as well as the RX international expansion. But, I'd close that by saying we feel good about our brand building investment overall, again lapping the big increase from the last quarter pushing some of that into later in the year.

And in general, we feel good about our SG&A performance as well as the brand building levels of investment that we have currently and in the plan.

Laurent Grandet

Thank you very much. Appreciate that.

Operator

The next question comes from Rob Dickerson with Deutsche Bank.

Please go ahead.

Robert Dickerson

Great. Thank you very much. Thank you for you took.

Kind of a question on gross margin, I don't think historically guide the gross margin but obviously the gross margin, do you have a large piece in -- of the year, first half, second year -- a first half second half sorry. So as Multipro comes out, after April the single-serve piece is supposed to if you could I think shift out kind of after Q2. Do we -- should we be expecting a stabilization in a gross margin as we get to the back half? Or is this -- or the other bucket? So the growth related bucket could that still potentially pressure the gross margin? And the reason why I asked these, just to keep it simple. Is really obviously operating profit still flat on the guide, your investing up in the business solutions likely the right thing to be doing.

But that gross margin piece obviously over a very long period of time, before you arrived just kind of continue to drift down, I just want to make sure, the line of sight is that gross margins actually improved at some point. Thanks.

Fareed Khan, 'Senior Vice President Chief Financial Officer'

Yeah, it's Fareed. Let me take that Rob.

So, we expect sequential improvement in gross margin as we go through the year, and there's several drivers of that they'll come together, let me just walk you through the main moving parts. The first is that, we initiated revenue growth management actions sort of Q4 and Q1, and we expect that to flow through as we get into Q2 and there's evidence of that, could you see in our price mix? The second thing is as we go deeper in the year, some of the year-over-year cost inflation that we saw starts to lap and that will be less pressure on that sort of ongoing cost inflation bucket that we have. You mentioned the mechanical impact of Multipro, we got one more month of that in the quarter, and an ongoing basis we will see a little bit of emerging markets mixed. We've got a much more focused emerging market strategy we're putting bets on specific markets.

But as those businesses build scale, we'll see margin improvement over the longer-term. And the last thing is single-serve and we've always talked about how we can take some short-term things around single-serve, we love the growth, we love the market opportunity, it's a under indexed area for us but the real fixes to the profit flow through that business is going to come from some of the supply chain changes and as you know we put those initiatives in place, we put CapEx up against those, but that's where you going to be a second half impact. So, kind of put all those dynamics together, you get a line of sight around and improving gross margin pictures you go through here at sit a good exit rate.

Robert Dickerson

Thank you.

Operator

The next question comes from Jason English with Goldman Sachs. Please go ahead.

Jason English

Hey, good morning, folks. I guess, I just want to follow-up on Rob's question.

I don't think you answered his question or whether not you would expect gross margins to become stable or up, as we progress through the year, I heard you loud and clear and sequential improvement. But is this sequential improvement in to growth?.

Fareed Khan, 'Senior Vice President Chief Financial Officer'

Yeah, margins are going to be improving as we go through the year, and we will see some growth coming years.

Steven Cahillane, 'Chief Executive Officer'

Yeah, you should anticipate as by the end of the year, exiting the year with growth in gross margin.

Jason English

Excellent. Thank you very much for that. And then, I want to come back to cereal real quick. I appreciate some of the turbulence early on with some of your Pack-Size reconfigurations.

As we're looking in the data which despite -- which we recognize there's ample imperfections there, a lot of your share weakness and frankly some of the categories we can suggest it could be due to promotional intensity. Promoted sales are down a lot, I as expected that reflects slightly more subdued level of merchandising out there. As you work your way through this transition, should we expect the promotional intensity or the merchandising intensity behind the category to improve? Do you think, are you expecting this to be an enabler of not only your market share improvement but hopefully some of the category trend improvement as well?

Steven Cahillane, 'Chief Executive Officer'

Yeah, Jason. What I tell you the couple of things, as we went through this whole transition, we essentially deprioritized promotions in the first couple of weeks of the year obviously because we're going through this transition, and that's where we saw a steepest drop, you should expect to see a return to what I would call normal in terms of promotion activity, merchandising effectiveness as we continue to go through the transition.

Jason English

And what is the timing there? You mentioned this is first phase like is -- do you have another phase so in other words could this transition, how long does it in that transition span?

Fareed Khan, 'Senior Vice President Chief Financial Officer'

Into the middle of the year, and so we've done our adult portfolio, will do our kids portfolio next -- other way around. So we did our kids portfolio first, we'll do our adult portfolio later. And so they'll be some turbulence, but we learned a lot going through the first phase, that will apply into the second phase.

Jason English

Helpful.

Thank you so much guys.

Operator

Excuse me, the next question comes from Alexia Howard with Bernstein. Please go ahead.

Alexia Howard

Good morning, everyone.

Steven Cahillane, 'Chief Executive Officer'

Good morning, Alexia.

Fareed Khan, 'Senior Vice President Chief Financial Officer'

Morning.

Alexia Howard

Hi. Can I stick with this question of pricing dynamics in North America? The -- It may be to do with the promotional change of calendar, you just described.

But the on shelves pricing is over 3% in -- on shelves measured channels in North America across the portfolio. And yes, you did only see about 0.2% price mix improvement in North America. If retailers continue to manage some of these products with faster on shelves price gross and you're able to realize, how will the volume trends improve? If you're having to pedal against those higher on shelves prices. And I guess link to that, I just a quick question on cereals, are you seeing any destocking in cereals? We've heard that from other companies, as part of the reason that the shipments were behind the take away on the cereal side.

Thank you.

Steven Cahillane, 'Chief Executive Officer'

Yes. Thanks for the question, Alexia. A couple of things, first I tell you, our Q1 price realization in North America was blurred by the RXBAR recall, which was about a full point in pricing.

So, you expect to see something above 1% or to see the 1.2% without that. The other thing is in Cereal and the rest of the portfolio, we did take pricing in Q4 and Q1. We're expecting that to flow through later --essentially in Q2 not much flow through or not as much flow through in Q1, based on protecting promotions and things that are very standard in terms of you take a price, but you have promotional activity booked in the first quarter. So, you should see that happening.

And the last part of your question, if you look back over time, both from average number of SKUs and ACV weighted distribution, there has been virtually no change in cereal for the last several years. And then, one additional point in terms of trade inventory, we did see a reduction in trade inventory for cereal which were expecting not to be a trend. But it looks to be kind of a one-off, so hopefully that answers your question.

Alexia Howard

So, in terms of the retailer on shelves pricing, do you have control over that? Or are you worried that they're taking pricing up more quickly? or is that just not a concern?

Steven Cahillane, 'Chief Executive Officer'

We do not control retail pricing.

We never have in retailers -- it's up to themselves, but we have -- you will see us having more price realization flowing through our P&L in the second quarter and beyond.

Alexia Howard

Thank you very much. I'll pass it on.

Operator

The next question comes from Chris Growe with Stifel.

Please go ahead.

Chris Growe

Hi, good morning.

Fareed Khan, 'Senior Vice President Chief Financial Officer'

Good morning, Chris

Steven Cahillane, 'Chief Executive Officer'

Good morning..

Chris Growe

Hi, I just want to ask a quick question a bit of a follow on. With SG&A being down on the quarter, as I was just thinking back to some of your commentary from the fourth quarter call. You did have -- you talk about like a heavier innovation pipeline in the first half of the year. Because understand, is there more marketing may press to come in the second quarter? As part of your investment behind these new products.

If I could just add to that. As you make investments in capabilities and that kind of thing and those have your expenses second half of last year, and those would be really flow through this year. Are those more SG&A or cost of goods sold and where those investments fall into those kind of in line with that you expected?

Steven Cahillane, 'Chief Executive Officer'

Yeah. I'll start now, let's Fareed will.

We do have good support around some of our innovation launches. And we feel very good about that. If you look at just a couple of them Cheez-It Snap'd, Pop-Tarts Bites both over close to 60% ACV distribution with velocities greater than their categories. So, the support there were putting behind them is clearly working.

The biggest change in SG&A as I mentioned, was pushing out some of the RX, spend into later in the year due to the recall. We do continue to invest in capabilities a lot around RGM, a lot around business planning and that should continue throughout the year. But when we look at our overall brand building levels as I mentioned earlier, we feel good that the very significant step-up that we started in 2017 and into 2018, puts it at -- about the right base level in terms of what we should expect going forward. We want maintain our agility as we go forward.

But, we see good support around the investments that we're making in innovation and we're seeing that very successfully in the marketplace.

Fareed Khan, 'Senior Vice President Chief Financial Officer'

And the only thing I'd add is that, our investments against the brands, we were taking a very nimble approach. So, you can -- we can we like what we're seeing with the big brands and the end market performance. And so we can react when our RXBAR recall for example, and that pivot some of that investment.

We also have through Project K and through some of the organizational changes that we've talked about in North America savings coming through and that's what's allowing us to fuel some of the reinvestments. The list that's Steve gave and I'd also add to that analytics and digital and international RX expansion as well.

Chris Growe

And so, we do would you expect SG&A to be down, it's a nice savings our last year, that this -- sound like should be down again this year even with some spending being up, is that correct?

Fareed Khan, 'Senior Vice President Chief Financial Officer'

Put that in the context of our overall guidance and we'll continue to see savings come through will make targeted investments brand building. There's a little bit of phasing there but in generally the sort of thing first half - second half it'd be pretty close to how we frame the full-year before the recall.

Chris Growe

Okay. Thank you.

Operator

The next question comes from Robert Moskow with Credit Suisse. Please go ahead.

Robert Moskow

I'm going to try to sneak in two questions. One is when we take a look at second quarter, I think you said that you would shift some of your investment spending out of first and into second. How should we think about earnings and profit growth as a result and second quarter will it be down versus year ago? And then, a broader question about spending at the retailers. In your brand building, do you include the money that you give to retailers for digital commerce and the omni-channel kind of efforts that they have, they advertising on those omni-channel efforts? I understand that the retailers are pushing harder-and-harder for more resources in that regard.

Thanks.

Steven Cahillane, 'Chief Executive Officer'

Yes, so as we said in the prepared remarks Rob, much of the brand building will be shifting into Q2, right. So, you should think about are the guidance that we've gave in terms of first half, second half as remaining the same. In terms of -- the way we spend with retailers for competitive reasons, we're not going to get too much into the detail.

But, retailer data if it's good data, we will engage with them, right? And so, we're looking always at the ROI of our spend. And if you look at some of the retailers with excellent data and I mean consumer shopper data, you combine that with -- our shopper data combined with our consumer data, one plus one can really equal phrase, so I'd look at it as the continued digitization of the opportunity to engage with consumers and where we can make good investments, we'll make those good investments but it'll be our choices.

Fareed Khan, 'Senior Vice President Chief Financial Officer'

And to just to build, on -- sort of the operating profit, sort of outlook for the year without getting to specific quarters, that whole gross margin conversation that we had -- I think is very applicable to this topic as well, with the caveat of sort of brand building which is kind of a Q1, Q2 dynamic. But if you go back to that whole dialogue on gross margin, so that sort of that similar shaped to OP as well.

Robert Moskow

Thank you.

Operator

The next question is from Ken Goldman with JP Morgan. Please go ahead.

Ken Goldman

Hi.

Thank you. Fareed best of luck to you. Thanks for all your help.

Fareed Khan, 'Senior Vice President Chief Financial Officer'

Thank you, Ken.

Ken Goldman

Steve, you said Special K had a very soft quarter, I just wanted to pick your brain a little bit on your thoughts on this brand which I think was supposed to be doing much better by now. With the corporate weakness a little bit of an anomaly or is it something where you're actually rethinking the strategy that you're replying to it at this point?

Steven Cahillane, 'Chief Executive Officer'

Thanks for the question Ken. I wouldn't say, we're rethinking the strategy so much as we were lapping a very-very strong promotion in the quarter, first quarter of '18, and we decided not to put that level of investment against it. We still have work to do on Special K in the United States.

We are learning from some of the successes we've had in Australia, New Zealand and the United Kingdom around Special K to get that brand to stabilization. But we think about the opportunities in cereal is a total portfolio. And so, if you look at some of the other adult -- I mean consumption on Corn Flakes was up nearly 22% in the quarter, Raisin Bran was up almost 5%, Mini-Wheats was up almost 1%. And so we're making good progress in a number of our big brands and we still have to fix Special K, and we're bound and determined that we will do it.

But, we have to think about portfolio investments and getting the most out of our cereal business and that includes all of our brands.

Robert Moskow

Thank you.

Operator

The next question is from Bryan Spillane with Bank of America. Please go ahead.

Bryan Spillane

Hey, good morning, everyone. Going to try to just get one clarification and then, a question on other income Fareed, I guess we're still guiding for it to be down because of the value of the pension assets. But with the markets up, as much as they are, is there a chance that will get re-measured at some point and potentially be less of a drag?

Fareed Khan, 'Senior Vice President Chief Financial Officer'

Yeah, unfortunately well, we wager once a year and that's the end of Q4 measurement and those assumptions on the returns stick for the full-year and then we re-measure it again. So, it's a fixed assumption as we go through now.

As we re-measure it, that we'll have a different dynamic.

Bryan Spillane

Okay. Thanks. And then, Steve just a bigger question, there's been a lot of energy around the plant-based meat alternatives recently, you've got a couple of new companies that are really emerging with I guess next generation product.

So, as you look at Morningstar and you evaluate, I guess the market opportunities is there a potential that you'll begin to maybe look to flex more resources there, the way that could enter that market as it evolved.

Steven Cahillane, 'Chief Executive Officer'

Yeah, thanks Bryan. It clearly is an exciting category been much in the news, we're excited about where Morningstar Farms is -- as I mentioned on the prepared remarks, we've got a lot happening in chicken. But we see a lot of opportunity to do things beyond that.

And for competitive reasons, I wouldn't get much into that except underscore, what you said it's an exciting space, it's a space where we feel like we have the right to win, you've heard us talk about ourselves being kind of the original plant-based protein company, we believe that. And so, we'll continue to innovate in that space and I would just say watch this space.

Bryan Spillane

Okay. Great.

Thank you.

Operator

The next question is from Priya Ohri-Gupta with Barclays. Please go ahead.

Priya Ohri-Gupta

Thank you so much for the question.

Fareed best of luck. Just a quick question on the debt payment -- the debt paid down comments using the divestiture proceeds, so hoping you could give us some context as to how to think about prioritization and using those proceeds. You do have some maturities later this year. Would those be sort of first and foremost or would you look to perhaps bring down some of the higher coupon debt that you have to help with interest expense? Thanks.

Fareed Khan, 'Senior Vice President Chief Financial Officer'

So, many those factors would go into our thinking, as we've got some maturities that are coming up in the near-term but we would look across the entire profile and make those best choices. I don't give any specific tranche that we would or wouldn't go after but, it's a balanced approach, and optimizing both maturities and interest all that would factor into our decisions.

Priya Ohri-Gupta

Great. Thank you.

Operator

The next question is from David Driscoll with Citi. Please go ahead.

David Driscoll

Great. Thank you, and good morning.

Steven Cahillane, 'Chief Executive Officer'

Hi, David.

David Driscoll

-- thanks for all your help. And Amit, welcome to the new job. I wanted to ask a little bit about -- just a clarification on divestitures and then, a question about the On the Go snacks.

The divestitures, I think you presented information that it's 4% to 5% diluted this year, but it's just a partial year. But then, in another slide the full 12-month dilution is stays at just 5%, I assume this relates to the timing and the use of the proceeds, but can you just clarify here, just on the surface the numbers are the same. Even though it's only what five-six months dilutive or gone this year whereas a full the full 12-months next year?

Fareed Khan, 'Senior Vice President Chief Financial Officer'

Yeah, so you're right David. It's Fareed.

So, it's more of an impact in 2019 and it's really those dynamics around the -- as the business goes, the cost that stay, the transaction support for the buyer, for the business and that all factors into it. So, you're right in terms of the way that's waited across '19 and into '20.

David Driscoll

Alright. The follow-up question or the main question is just On the Go.

Obviously last year you had a surprise on the margin structure of that business, and I think your comments about gross margins are probably a portion of the answer, but I want to be real specific here. Are you on track for the in-sourcing of these On the Go products? And Steve, I'd just like you to comment, you've got all these new products in snacks, you've got the size change going on in cereal in North America and you've got the in-sourcing of all these On the Go products. It's just a lot of complexity and for me, this is an executional question for the organization. How do you feel about all these things happening? And then, specifically are we on track for the On the Go in-sourcing?

Steven Cahillane, 'Chief Executive Officer'

Yeah, David.

Thanks. The short answer your question, yes we are. In Q1 and Q2, it's really about SKU rationalization and revenue growth management. In Q3 and Q4, it's around centralized packing sites getting opened, and so therefore repatriating that volume inside.

And so, we're very confident that we have a gross margin path towards as -- this is part of it, but an important part of it, where I said, we'd exit the year on a path towards gross margin growth. So the answer that question is yes, and we continue to see outstanding growth as you saw on one of the slides in those On the Go packs. In terms of overall like the innovation and the complexity and all the things that were doing, we feel very confident about that and if I just -- I threw out some numbers before, but if you look at just the consumption in the United States in Q1 on the big brands that were investing against and innovating around. Pop-Tarts was up 14%, Cheez-It was up over 12%, Rice Krispies Treats was up 8%, Pringles was up over 4%, and so forth and so on.

So, these are the brands that we said we're going to invest in around our deployed for growth strategy. These are the brands that have the On the Go pack formats. And these are the brands that have the new big innovations and it's working, it's working in the marketplace. And therefore we're going to continue to focus on that.

And it's not about proliferation it's about innovating around the big brands from a pack format, but also from an innovation food format, and we feel good about what that's giving us in the marketplace.

David Driscoll

Thanks for all the detail.

John Renwick, 'Vice President of Investor Relations'

Operator, I think we only have time for one last question.

Operator

And that question will come from Eric Larson with Buckingham Research Group.

Please go ahead.

Eric Larson

Yeah, thank you, everyone and good luck to you Fareed as well as Amit, Looking forward to working with you now as well. So Steve, just a follow-up question here that I have is again on snacks, which is really working for you and you're a bigger snacking company today than you're a cereal company and so this is important. And the goals of changing your DSD was to free up the resources -- marketing resources, so you can invest against the brands and I think you sort of lapped, I think mid-part of last year you finally lapped all of that conversion process.

So, my question is you talked about spending all -- are we still looking at a significant year-over-year increase in let's say, you're advertising flat promotional investment in North America snacks? Are we halfway through that and this year is still -- I'm just trying to gauge the great sustainability you've got here of the top-line momentum?

Steven Cahillane, 'Chief Executive Officer'

Yeah. Thanks for the question, Eric. We have fully lapped the DSD transition. And that includes the investments that we shifted from DSD capability into brand building.

And so, as I said before, we're going to maintain our agility. But, we feel like we have the right levels of investment against the right brands. And it's working in the marketplace, it's showing good consumption growth against those brands that I just rattled off, and you can look at the same Nielsen numbers, we look at when you look at things like conversion of feature and display, we feel good about the way we're executing in the marketplace in a post-DSD world. So fully lapped, right, levels more or less of brand building against those brands and good execution in the marketplace and the consumption is showing that it's working.

Eric Larson

Okay. Thank you.

John Renwick, 'Vice President of Investor Relations'

Operator, I think that's all we have time for.

Operator

This concludes our question-and-answer session.

I would like to turn the conference back over to John Renwick with for any closing remarks.

John Renwick, 'Vice President of Investor Relations'

Thanks everyone for your interest. And I am around all day, so give me a call. Thanks.

Operator

The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.