The Kraft Heinz Company

Q1 2025 Earnings Call | April 29, 2025

COMPANY PARTICIPANTS

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QUESTION AND ANSWER SESSION

Operator: Greetings and welcome to The Kraft Heinz Company First Quarter 2025 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. As a reminder, this concert is being recorded. It is now my pleasure to introduce Anne-Marie Megela, Head of Global Investor Relations. Thank you. You may begin.

Anne-Marie Megela

Vice President, Global Head of Investor Relations, The Kraft Heinz Co.

Thank you. And hello, everyone. Welcome to the Q&A session for our first quarter 2025 business update. During today's call, we may make forward-looking statements regarding our expectations for the future, including items related to our business plans and expectations, strategy, efforts and investments, and related timing and expected impacts.

These statements are based on how we see things today, and actual results may differ materially due to risks and uncertainties. Please see the cautionary statement and risk factors contained in today's earnings release which accompanies this call, as well as our most recent 10-K, 10-Q and 8-K filings, for more information regarding these risks and uncertainties.

Additionally, we may refer to non-GAAP financial measures, which exclude certain items from our financial results reported in accordance with GAAP. Please refer to today's earnings release and the non-GAAP information available on our website at ir.kraftheinzcompany.com under News & Events for a discussion of our non-GAAP financial measures and reconciliations to the comparable GAAP financial measures.

I will now hand it over to our Chief Executive Officer, Carlos Abrams-Rivera, for opening comments. Carlos, over to you.

Carlos Abrams-Rivera

Chief Executive Office & Director, The Kraft Heinz Co.

Thank you, Anne-Marie. And thank you, everyone, for joining us today. At Kraft Heinz, we are proud to be a trusted partner in kitchens everywhere, providing comfort and connections, particularly in these moments of uncertainty. Now, despite growing market pressure in the first quarter, we delivered top-line results in line with our expectations, with strong cash flow performance and a healthy balance sheet. We are also encouraged by the progress we're making in improving brand superiority.

While these advancements are not yet reflected in the financial results, they do give me confidence that we are putting in place the right building blocks. Our commitment to making the necessary investments to deliver quality and value offerings to our consumer is unwavering. At the same time, we are closely monitoring market tension and have adjusted our guidance accordingly. With that, I have Andre joining me. So, let's open the call for Q&A.

Operator: Thank you. We will now conduct a question-and-answer session. The first question comes from Andrew Lazar with Barclays. Please proceed.

Andrew Lazar
Analyst, Barclays Capital, Inc.

Great. Thanks so much. Carlos, you mentioned in the prepared remarks that the revised outlook provides the necessary flexibility to dial in on investments as deemed appropriate. And that said, this is not the first time, right? Kraft Heinz has sort of used this language around proposed investments, and so far, it's not proved enough, although admittedly in a very dynamic consumer environment.

Many industry players, I think, have taken the approach of kind of like increasing investments on what seems to be more of an incremental basis to see how the consumer reacts, almost like a sort of a test-and-learn approach. The magnitude of today's guidance cut is larger than previous ones, but I'm still getting a lot of questions from investors, I guess, as to whether this is more of the same sort of approach, or if you see it as more comprehensive in some way. Thanks so much.

Carlos Abrams-Rivera
Chief Executive Office & Director, The Kraft Heinz Co.

Good morning, Andrew. Thanks for the question. First, let me just say, we are continuing to invest in the business despite what we are seeing in terms of macroeconomic uncertainty because we're confident in the strategy that we have. And in moments like this, companies can be sometimes overly cautious and defensive, or play offense. And we are choosing to play offense with discipline. So we are prioritizing investments in marketing, R&D and technology. And the way we're doing that, Andrew, is we focus on increasing returns of our marketing dollars by shifting them more towards consumer-facing marketing. We're also making sure we're optimizing the allocation across the brands and media types so that we make sure we have the best ROI with an improved quality of the messaging at the same time.

I mentioned investing in R&D. We are going to continue to invest behind our innovation pipeline. We are making sure we are closing the gap to our investment levels, that is the 1% of net sales. And I mentioned technology, we are going to continue to invest in our technology as well because that actually has helped us in terms of driving the efficiencies in the business by investing in things like automation and enhanced digital tools.

But why is this different, what's different now versus in the past? I'll tell you, one of the important parts of what is different is the fact that we're also investing through the Brand Growth System. And if you recall, the Brand Growth System is our repeatable global model for understanding how we see opportunities within our brands and how we make sure we drive superiority on those brands through both products, packaging, and making sure that every communication has the right brand resonance, value equation and omni execution. So, it's not just what we are spending, but how we are spending too.

And we mentioned in the past that we have done this in about 10% of our brands in 2024 as a way to pilot. That is, in fact, now being scaled up to 40% of our business by the end of this year. So, that idea of us having more confidence in investing because now we have proven that the Brand Growth System helps us identify the right opportunities and allows us to make sure we take the right steps in order to fuel the investments, I think it's part of why we're going to be playing offense with discipline.

So, you'll see us actually step up our investments in marketing and making sure that as we renovate our products we are supporting it with the right focus on consumer communication. So, we invest behind the Brand Growth System. We make sure we have the great products, packaging, quality, and then we make sure we have the right communication to support it and drive that forward. It's something that helped us and worked with our Philadelphia brand in 2024. It helped us in the Heinz UK business in the last year. And now we are going to be seeing that across all of our brands as we go through 2025.

Andre Maciel
Executive Vice President & Global Chief Financial Officer, The Kraft Heinz Co.

Good morning, Andrew. Just to add to what Carlos said. So, remember that in our prior guidance, we already had contemplated a step-up in price investments, and just roughly speaking, to the extent of 100 bps on the top line. So, it was a relevant investment and concentrated on those categories we have previously described. And we also had in the prior guidance already contemplated a double-digit increase in media.

So, we were still retaining our marketing percentage of revenue at 4.5% in the prior guidance. And by reallocating expenses within the marketing bucket, we could free up a double-digit increase in media. Now in this new guidance, we have opened the room to further accelerate our marketing investment. Remember that in our long-term algorithm, we want to be at approximately 5%.

We have the midpoint of the guidance around 4.8% of marketing, so a 30-bps step-up. This number might still fluctuate a little bit up or down depending on how the dynamics happen throughout the year, including the final impact on tariffs. But we want to accelerate the step-up to reach 5%.

And we also have in the guidance some impact on COGS linked to product renovation. As Carlos said, as we continue to deploy the Brand Growth System, we are seeing opportunities not only to improve the quality of messaging and have more media pressure, but also to renovate the products and ensure a stronger superiority.

Operator: The next question comes from Yasmine Deswandhy with Bank of America. Please proceed.

Yasmine Deswandhy
Analyst, BofA Securities, Inc.

Hi. Good morning, everyone, and thank you for the question. So, I kind of wanted to dig in a little bit on North America and the organic sales guidance update for this year. So just for 2Q specifically, there's a few items here to consider. You talked about the Easter timing shift and then there's the plant closure lap. But there were also impacts last year on Lunchables from the consumer report. And then you had the Capri-Sun reformulation impacting consumption. So, could you help size those impacts, if any, to the second quarter? And if there's anything else that we should consider that will drive a gap between North America shipments versus consumption?

Andre Maciel
Executive Vice President & Global Chief Financial Officer, The Kraft Heinz Co.

Good morning. Thanks for the question. Look, we expect the second quarter top line to be better than the first quarter. The effect of Easter is approximately 90 bps to 100 bps. So, that will be a tailwind in the second quarter. In addition to that, we have Emerging Markets further accelerating from where we were in Q1. And inside the US, aside from Easter, we are going to see improvement in the Accelerate platforms. So, Cream Cheese and Ore-Ida. They declined in Q1 and this was totally expected because we are lapping competitors with out-of-stock issues last year. But now we restore growth and we're going to see growth in those two categories in the quarter.

And to your point, we will see some improvement in Lunchables. It still will not be the levels that we believe we can achieve as the main renovation hits the market at the end of the second quarter. But you should see Lunchables improving, particularly after mid-May and June, because that's when we really start to fully lap the consumer report from last year.

On the factory, we are lapping that as we head into the second quarter but take into account that the restaurant industry has slowed down quite a lot this year. So, we are not going to see necessarily growth in Away From Home in the second quarter. But beyond that, you will see the Accelerate platforms with sauces, cream cheese, meals and snacking with a better performance in comparison to Q1.

Yasmine Deswandhy
Analyst, BofA Securities, Inc.

Okay. Great. Thank you. That's really helpful. And a quick follow-up to that. Just looking into the second half of the year, obviously understanding that 2Q will see some nice improvement on volumes given the one-time items that you just mentioned. Your organic sales cut was basically all volumes since the pricing contribution was left unchanged. Do you see a need for North America volumes to inflect positively in the second half in order to hit your guide? Or do you expect growth in international, particularly in Emerging Markets, to be enough to hit your guidance for the year?

Andre Maciel

Executive Vice President & Global Chief Financial Officer, The Kraft Heinz Co.

At the midpoint of our guidance, total company does not get you positive in any quarter.

Operator: The next question comes from Tom Palmer with Citi. Please proceed.

Thomas Palmer

Analyst, Citigroup Global Markets, Inc.

Good morning. And thanks for the question. I wanted to ask on the COGS inflation, the revised outlook. Just any breakdown of how much of that is related to tariffs versus maybe other drivers of that increase? And then just the timing of when we really start to see that step-up. Thank you.

Andre Maciel

Executive Vice President & Global Chief Financial Officer, The Kraft Heinz Co.

In our prior outlook, we had inflation at 3%. So, before any tariffs, our guidance is a step up to 5% of COGS, particularly in some commodities like coffee and meat, we saw a big increase in comparison since last quarter. So, the base inflation was already up to 5%. And now with the tariff impact, I mean, obviously a lot of uncertainty still around that, but we do estimate with what we know so far an impact in 2025 of 150 bps to 200 bps on COGS.

Timing wise, look, we don't know for sure, right? We are assuming that this will be concentrated in the second half. Maybe there will be some impact in the second quarter. We built some inventory where possible in certain items as we anticipated that to happen. So that gives a little relief for a month, maybe two in some of the items, but the impact should be mostly concentrated in the second half.

Thomas Palmer

Analyst, Citigroup Global Markets, Inc.

Perfect. Thank you for that. I noticed that there wasn't a change in kind of that pricing outlook, as Yasmine just noted. But it sounds like there's price investment in some areas and then there is incremental pricing in other areas. Maybe just any detail you can provide there?

Andre Maciel

Executive Vice President & Global Chief Financial Officer, The Kraft Heinz Co.

At the midpoint of the new guidance, we don't have further investments in price in addition to the approximately 100 bps we already had contemplated in the initial outlook. So, the incremental investment is mostly in marketing, particularly media and product renovation. And there are some sampling investments because remember that as we renovate the products, including the ones that we have renovated last year, like Capri-Sun, we really need to step up the trial curve. So, we are stepping up sampling investments heading into the summer.

Operator: Thank you. The next question comes from David Palmer with Evercore ISI. Please proceed.

David Palmer
Analyst, Evercore ISI

Thanks. A couple of questions. You updated your inflation guidance, and thanks for your comments there on the tariffs being incorporated in that. I wonder how you're thinking about pricing offsets to that. And when it gets to a certain level of input inflation and your willingness to price that away, are there levels where you have to be cognizant of rising price elasticity perhaps over a few percent, for example, where you're more aware of any sort of list pricing and you have to start moving towards other types of adjustments or offsets?

And then separately, Andre, I know you've been very active in thinking about promotional activity and returns on that promotional activity. When we look at our data, it looks like Kraft Heinz has been a little bit different than some of the other larger food companies, in that it's well below 2019 levels in terms of its volume on promotion, whereas some – many, or if not most, other companies look like they're at those levels already and continuing to rise. I'm wondering if you kind of recognize that juxtaposition and how you think about the promotion strategy going forward. Is that something that you're noticing as well? Thank you.

Carlos Abrams-Rivera
Chief Executive Office & Director, The Kraft Heinz Co.

Let me start with the second part and then have Andre kind of comment a little bit on the first part of your questions. First of all, what you're seeing is the fact that it follows our strategy. I mentioned earlier that we are going to continue to make investments and play offense with discipline. And I think for us, it's an opportunity to make sure that when we are investing, we are doing this in a way that is thoughtful about the return of that investment and that we are building something that supports our strategy and allows us to grow not only in the short term, but really in the medium and long term.

So, when we're investing in pricing for a promotional event, it's because we believe that it actually creates the kind of base volume opportunities as we go past that particular event. You'll see us continue to invest in times of the year when the consumer needs us, whether that is now Memorial Day, whether it's July 4, whether it's back-to-school. We're just going to do it in a disciplined way to make sure that again it is supporting the strategy that we have and not just chase a short-term volume that actually doesn't – essentially all you do is kind of rent volume for a short period of time.

The other piece that is important to note is that when we're making those investments, we're also doing it in combination with our Brand Growth Systems investments, so that when we are going for a back-to-school time period and we have now a renovated new Lunchables, whether we have a renovated new Capri-Sun, that's a moment for us to not only stimulate the demand, but also making sure that the consumers get to try the best product that we have ever made in those categories.

I think it's that combination that is kind of guiding our principles versus kind of how competitors are playing at this particular time. They're choosing a different strategy. We believe we want to make sure that we're doing things smartly because our focus is continuing to drive profitable growth for the future. Andre, do you want to comment on the first part?

Andre Maciel
Executive Vice President & Global Chief Financial Officer, The Kraft Heinz Co.

Hi, Dave. Look, on the promo side, Carlos said, we will continue to be disciplined and really seek promotions with good returns. You will see a step-up in promotional activity during the key windows, particularly now in summer. You will see that number stepping up as part of our initial guidance. Again, we have approximately 100 bps of incremental price investment in the US.

In regard to pricing the tariffs, look, we are trying to do everything we possibly can to minimize the amount of price necessary. We have anticipated some purchases. We are looking at alternative sourcing. There is opportunity for, in some cases, reformulation which takes a little bit longer. There are opportunities on the mix side. There are certain SKUs within the category that are less impacted than others when it comes to tariffs. So, all of that is at play.

We are stepping up productivity in the year. We started the year expecting 3.5% of COGS. Now we are expecting a little more than that. We are using all the possible levers. But pricing might be necessary. This is a work in progress though.

Operator: The next question comes from Chris Carey with Wells Fargo. Please proceed.

Chris Carey
Analyst, Wells Fargo Securities LLC

Hi, everyone. I wanted to ask a question about gross margin and then just a follow-up elsewhere. From a gross margin perspective, specifically the Q2 weakness that you're expecting and in the context of just how this typically works, is the primary driver of Q2 gross margin weakness coffee inflation? And I guess, I asked that question in the context of, historically, this is really a pass-through category where pricing comes through to offset the inflation. Understanding there's always going to be quarter-to-quarter volatility. But are you seeing perhaps less ability to pass through the coffee inflation just given the overall coffee inflation backdrop?

And then, just secondly, are there any areas within your portfolio or broader portfolio where you're seeing more bright spots from a market share perspective? Because I think similar to last quarter, where we continue to struggle is the categories have clearly softened, but market share performance has come under more pressure. And so what are those things that you've been doing over the past few months, maybe specifically where you're saying, okay, that specific strategy is working to kind of right the ship here, because it's been a bit harder to see in the data. So, thanks for those two items.

Andre Maciel
Executive Vice President & Global Chief Financial Officer, The Kraft Heinz Co.

Sure. Thanks for the question. I will start with the Q2 margins. We do expect pressure on gross margins in the second quarter, and there are a few different items affecting the margin. The first one is, as I just said in the prior question, we do expect a step-up in the promotional activity as we started the shipments for the summer season. So, we will see a lower price in the P&L.

Second, we are facing the impact of some hedge losses in the second quarter, and they are quite large. And the good thing is that once they roll off into Q3, we will start to see some of those commodities that're starting to come down, like dairy, start to flow through the P&L.

And third, to your point, there are some increases in certain commodities in Q2. And the way we see right now is some of them are going to reach the peak in Q2, and that should start to go backwards or decelerate at least as we head into the third quarter.

So those three elements are the key contributors for the gross margin pressure that we are seeing. And there is a little bit as well of the product renovations that we're starting to step up. So as a result of that, plus we're starting to step up investment in marketing, we do expect the operating income to decline double-digits in the second quarter. In regard to the bright spots, Carlos, I'll pass it over to you.

Carlos Abrams-Rivera
Chief Executive Office & Director, The Kraft Heinz Co.

Listen, I think if you look at our year-to-date – our latest five weeks versus the year-to-date, you see us making progress in all of our Accelerate businesses, so whether it's Taste Elevation, whether it's ready-to-eat meals, whether it's snacking, all those things are progressing. I think in Q1, obviously we had the impact of Easter. As we are seeing now the data with several weeks of Easter, you are going to continue to see that improvement.

For example, in a business like our Philadelphia Cream Cheese, which is now past the Q1 lapping of private label not being on shelf in the category last year, you will see that continue to drive growth. Whether you see that in our desserts business, that continue to drive growth after reformulations and focusing on Better for You products in that category. So you'll see that many of the investments we're making will continue to play out as we go through the year.

And I mentioned that in the opening statement, which is a lot of the great things that we are seeing in terms of the building blocks and not yet all reflected in the data, but those are things that you'll see as we continue to progress throughout the year. I'm also very encouraged about the fact that some of the big innovations we have done have continued to now drive growth. A business like our Mexican strategy that we didn't have two years ago, we grew double-digits last year and we are growing double-digits again this year. That also gives me confidence in the fact that as we are building innovation, we're doing it with the right insights with consumers to drive growth that is sustainable and profitable for the long term. Thanks for your question.

Operator: Our next question comes from Megan Clapp with Morgan Stanley. Please proceed.

Alexia Tsimikas
Analyst, Morgan Stanley & Co. LLC

Hi. Good morning. This is Alexia on for Megan. In the prepared remarks, you guys mentioned the wider operating income guide partly reflects changing policy landscape. Should we be thinking about that from a top line perspective or is that related to costs? Just any incremental color you could give there would be great. Thanks.

Andre Maciel
Executive Vice President & Global Chief Financial Officer, The Kraft Heinz Co.

Thanks for the question. As you know, there are a lot of things being discussed and under consideration that might have implications on the business, positive or negative. So, part of the reason why we have this wider range is it should contemplate a whole different set of scenarios that can come into play.

Carlos Abrams-Rivera
Chief Executive Office & Director, The Kraft Heinz Co.

So we're trying to just provide the flexibility, knowing that there is a number of things that are still volatile, but in that guidance you'll see that we are acknowledging some of those things, we're preparing for those things, and also at the same time, making sure that we have the right flexibility to invest back in the business in order to drive the trade that we have and then fuel the opportunities that we are seeing with our Brand Growth System to spend back in our brands. So that's all reflected in the way we're kind of shaping the year ahead. Thank you, Alexia.

Anne-Marie Megela
Vice President, Global Head of Investor Relations, The Kraft Heinz Co.

And thank you, everyone, for joining us. Operator, that concludes our Q&A session.

Operator: Thank you. This does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation and have a great day.
