Second Quarter 2023 Earnings Pre-Recorded Management Discussion
Aug. 2, 2023

Please view the following prepared management remarks together with our Quarterly Report on Form 10-Q, the earnings release that accompanies these remarks, the related presentation slides, and the non-GAAP information that accompanies these remarks, which includes a discussion of non-GAAP financial measures and reconciliations of non-GAAP financial measures to the comparable GAAP financial measures. The related earnings release and presentation slides and accompanying non-GAAP information are available on our website at ir.kraftheinzcompany.com under News & Events > Events & Webcasts, or directly at ir.kraftheinzcompany.com/events-and-webcasts.

We also invite you to listen to our live question-and-answer webcast with Kraft Heinz management, which will begin today at 9:00 a.m. Eastern Time and will be available on our website at ir.kraftheinzcompany.com under News & Events > Events & Webcasts, or directly at ir.kraftheinzcompany.com/events-and-webcasts.

Forward-Looking Statements

The following remarks include a number of forward-looking statements as defined under U.S. federal securities laws, including, but not limited to, statements, estimates, and projections relating to our business and long-term strategy; our ambitions, goals, targets, and commitments; our activities, efforts, initiatives, plans, and programs, and our investments in such activities, efforts, initiatives, plans, and programs; and projected or expected timing, results, achievement, and impacts. Words such as “aim,” “anticipate,” “aspire,” “believe,” “could,” “estimate,” “expect,” “guidance,” “intend,” ”may,” “might,” “outlook,” “plan,” “predict,” “project,” “seek,” “will,” “would,” and variations of such words and similar future or conditional expressions are intended to identify forward-looking statements. These statements are based on management’s beliefs, expectations, estimates, and projections at the time they are made and are not guarantees of future performance. Such statements are subject to a number of risks and uncertainties, many of which are difficult to predict and beyond our control, which could cause actual results to differ materially from those indicated in the forward-looking statements. For additional, important information regarding such risks and uncertainties, please see our related earnings release, which accompanies this presentation, and the risk factors set forth in Kraft Heinz’s filings with the U.S. Securities and Exchange Commission, including our most recently filed Annual Report on Form 10-K and subsequent reports on Forms 10-Q and 8-K. We disclaim and do not undertake any obligation to update, revise, or withdraw any forward-looking statement in this presentation, except as required by applicable law or regulation.

Non-GAAP Financial Measures

These remarks contain non-GAAP financial measures, including Organic Net Sales, Adjusted EBITDA, Constant Currency Adjusted EBITDA, Adjusted EBITDA Margin, Adjusted Gross Profit, Adjusted Gross Profit Margin, Adjusted EPS, Free Cash Flow Conversion, and Net Leverage. These non-GAAP financial measures may differ from similarly titled non-GAAP financial measures presented by other companies. These measures are not substitutes for their comparable financial measures prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and should be viewed in addition to, and not as an alternative for, the GAAP results in these remarks.

These non-GAAP financial measures assist management in comparing the Company's performance on a consistent basis for purposes of business decision-making by removing the impact of certain items that management believes do not directly reflect the Company's underlying operations.

Q2 2023 Earnings Pre-Recorded Management Discussion

ANNE-MARIE MEGELA, HEAD OF GLOBAL INVESTOR RELATIONS

Slide 1

Hello. This is Anne-Marie Megela, Head of Global Investor Relations at The Kraft Heinz Company. I'd like to welcome you to our second quarter 2023 business update.

Slide 2

During the following remarks, we will make forward-looking statements regarding our expectations for the future, including 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 statements and risk factors contained in today's earnings release, which accompanies these remarks, as well as our most recent 10-K, 10-Q, and 8-K filings for more information regarding these risks and uncertainties.

Additionally, we will refer to non-GAAP financial measures, which exclude certain items from our financial results reported in accordance with GAAP. Please refer to today's earning's 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.

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Today, our Chief Executive Officer and Board Chair Miguel Patricio will provide an update on our overall business performance. And Andre Maciel, our Global Chief Financial Officer, will provide a financial review of the second quarter and will discuss our 2023 outlook.

We have also scheduled a separate, live question-and-answer session with analysts.

You can access our earnings release, supplemental materials, and audio of our question-and-answer session at ir.kraftheinzcompany.com. A replay of the question-and-answer session will be available following the event through the same website.

With that, I will turn it over to Miguel.

MIGUEL PATRICIO, CHIEF EXECUTIVE OFFICER AND BOARD CHAIR

Thank you, Anne-Marie.

And thank you all for joining us today.

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Let me start by sharing how proud I am of our team and the tremendous progress we have made.

In the quarter, we grew profits and profitability over last year, with topline fueled by our three pillars of growth, yet again.

Yes, we lost share in the second quarter, but this was a headwind we expected, as we priced above the market. Here's the good news –-the pricing is done – and even with elevated price gaps, we aren't losing incremental share to private label. This demonstrates a more resilient portfolio than in the past. Plus, we saw improvements in share each month in the quarter as we executed our action plans discussed in our last earnings call – more about that later.

We are, however, losing incremental share to brands who are promoting more than we are. Meanwhile, we are taking a disciplined and surgical approach to protecting our profit dollars in certain categories. With this approach, and by continuing to unlock efficiencies across our value chain, we are generating margin gains. With these margin gains, and in line with our strategy to drive further growth, we are investing more in marketing, R&D, and technology.

Our results give me further confidence in our strategy and our business, and I am pleased to reiterate our full-year guidance.

Let's take a closer look.

Slide 5

In the second quarter, we increased topline, profits, and profitability.

We grew Organic Net Sales 4 percent, with Adjusted EBITDA and Adjusted EPS growing at a faster pace.

Slide 6

We are driving growth across all 3 pillars…

Foodservice grew approximately 15%. Emerging Markets grew 11%. And our GROW platforms in U.S. Retail grew 1%.

Slide 7

Our foodservice business is growing and gaining market share.

We delivered approximately 15% growth in the second quarter outpacing the industry both in North America and International. We expect this pace of growth to continue into the second half of the year.

Slide 8

As a reminder, our strategy to grow foodservice consists of 3 levers:

First, continued investment in our chef-led model. We are driving sales by bringing chefs into conversations with our customers to develop menu concepts that meet their specific needs.

Second, competing in more attractive, higher-margin channels like Mom & Pop businesses – and National Accounts like hospitality and schools, where we are launching *Lunchables* for the first time ever in the fall.

And third, innovation, both from a technology and product standpoint.

In North America, this includes introducing connected equipment such as new *HEINZ* sauce taps. These have adjustable portion control, which allows us to better customize solutions for our customers.

As well as programs like *HEINZ* Sauce Drops, where we can test new-to-the-world sauces. If they are successful, we can scale within foodservice and potentially launch at retail.

We did just that very successfully in Brazil, with Smoked Paprika Mayo and Bacon & Onion Ketchup.

Slide 9

Now let’s turn to Emerging Markets.

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We continue to deliver double-digit growth in Emerging Markets. In the second quarter, Organic Net Sales grew 11%.

This is despite one-time impacts that reduced year-over-year growth by approximately 7 percentage points.

The largest of these were delivery delays in Brazil, which impacted customer replenishment orders within the second quarter. In the third quarter, we are already seeing a return to the previous, elevated sales levels.

We expect Emerging Markets growth to accelerate as we move past these one-time impacts, with the second half growing at a similar rate as the first quarter.

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We plan to continue driving growth in Emerging Markets through our differentiated strategy, consisting of three levers.

First, a repeatable, data-driven go-to-market model to drive distribution.

Second, through the power of our *HEINZ* brand, which extends well beyond ketchup. Local jewel brands like *Master* and *Hemmer* complement *HEINZ* in several markets.

And third, our Foodservice business, which allows us to further drive brand awareness.

Slide 12

Finally, let's look at GROW platforms in U.S. Retail.

Slide 13

North America Organic Net Sales grew 1.3 percent versus the prior year, and within that, GROW platforms grew 0.8 percent.

As you can see on this slide, consumption growth for GROW platforms was higher than Organic Net Sales, at 2.6 percent.

Let me reinforce that we are not chasing share in ways that are not sustainable. We are focusing our investments on our GROW platforms, with each part of the portfolio playing a specific role. For example, while Energize may be contributing to share loss in areas like bacon, we saw meaningful high-single-digit Adjusted EBITDA growth in the second quarter.

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And overall, our GROW platforms are growing. Taste Elevation Organic Net Sales grew 6 percent, with 8 percent consumption growth.

And Easy Meals Organic Net Sales grew 1 percent, with strong consumption, up 6 percent.

Slide 15

Turning to market share. You may recall last quarter I presented a series of action plans to capture additional share across our U.S. retail business.

These plans consist of:

Executing joint business plans to improve shelf space and merchandising.

Increasing marketing investment by double digits year-over-year.

Ramping up innovation delivery throughout the year.

and solving our remaining supply constraints.

Slide 16

Looking at share results for the quarter, we lost 50 basis points. Share loss was concentrated in the same categories as the first quarter, which were Cold Cuts, Cream Cheese, and Kids Single-Serve Beverages.

Meanwhile, Taste Elevation and Easy Meals outperformed U.S. Retail.

Slide 17

As you can see, our action plans began to take hold throughout the quarter, despite persistent elevated price gaps, with U.S. share trends rebounding and improving each month.

In Taste Elevation and Easy Meals, we saw even better recovery.

July year-over-year share trends through the week ending July 23rd continued to improve, and Taste Elevation and Easy Meals have returned to share gains.

In the second quarter, we faced expected headwinds after pricing 75 percent of our portfolio and the reduction of SNAP benefits. And in the fourth quarter, we expect pressure when student loan repayments resume in the United States.

We had planned for elasticities to return to more normal levels, and that's what we are seeing.

Across our portfolio, we expect that the continued execution of our action plans, and the lapping of previous pricing actions, will drive further trend improvement.

On the supply recovery front, we reached case fill rates of 97 percent in the second quarter.

And we have already started increasing our marketing spend.

Throughout the third quarter, we expect the impact of our joint business plans to take effect across many categories.

Finally, in the fourth quarter, the net sales impact of innovation is expected to ramp up meaningfully.

Looking into specific categories, we are expecting improvement in *Philadelphia* Cream Cheese by the end of the third quarter. For Kids Single-Serve Beverages and Cold Cuts, we are expecting improvements in the fourth quarter.

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We have generated positive momentum, and we are confident that we will continue to see this trend in the second half of the year as we invest for the future across marketing, R&D, and technology.

In line with our strategy, we are funding these investments through Adjusted Gross Profit Margin Expansion.

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In the second quarter, we increased our marketing spend by 23 percent year-over-year. And we continue to generate best-in class marketing activations. Let me tell you about one great example.

We recently launched our first-ever global campaign for *HEINZ*, highlighting the irrational, yet well-deserved love that consumers have for the brand. This campaign was born from actual consumer stories, a testament to the power of *HEINZ*.

And at the Cannes Lions International Festival of Creativity this year, we were recognized with 21 Lions for our marketing and advertising campaigns. This is the most ever for Kraft Heinz, and more importantly, the most for any food company in the world.

Slide 20

In the second quarter, we boosted our investments in R&D 10 percent versus the prior year. We're continuing to build our innovation pipeline, enabled by our Agile Innovation Engine.

In the U.S., after conducting regional tests, we launched NotCheese, NotMayo and plant-based Philly nationally.

We are launching with robust media support, and plan to reach full distribution by the fourth quarter.

We are also expanding into new aisles in the grocery store. *KRAFT* Mac & Cheese is finally going into the frozen aisle. And with the addition of fresh fruit, *Lunchables* is being introduced into the produce aisle.

And there is so much excitement around *HEINZ* Remix in the foodservice channel. Consumers can now personalize their own flavor creations in seconds. This is just one tangible result of our Agile Innovation Engine, going from concept to working prototype in just six months.

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Following the success of *HEINZ* Pasta Sauces, we just launched our *HEINZ* Culinary Tomatoes line in the UK. It features 11 brand-new products, including chopped tomatoes, tomato puree, and game-changing base sauces for dishes like curry and pizza.

As you can see, *HEINZ* means a lot more than ketchup, with 60 percent of International Zone *HEINZ* net sales in categories other than ketchup.

And our *Tingly Ted's* hot sauce, launched in partnership with British megastar Ed Sheeran, is doing very well. We are in the top 25th percentile in velocities within the category in the UK. We are already live in Europe, currently launching in North America, and have a strong pipeline for 2024 launches around the world.

Overall, we are expecting innovation to ramp up in the second half of 2023 and into 2024.

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Finally, through our investments in technology, combined with what we call Agile@Scale, we are delivering solutions across our value chain to accelerate our growth and drive efficiencies.

We are investing across innovation, sales, revenue management, marketing, and supply chain.

For example, in supply chain, we recently announced that we are partnering to develop one of the largest, most automated, distribution centers in North America.

This distribution center is expected to enable us to drive two times the volume for our customers and reduce our environmental footprint. The facility is expected to open in 2025 and bring 150 jobs to the Greater Chicago Area.

Through our investments in marketing, R&D, and technology, we are not only enabling our current performance, but investing for the future.

Slide 23

With that, let me pass it to Andre to discuss our financial results.

ANDRE MACIEL, EVP AND GLOBAL CHIEF FINANCIAL OFFICER

Thank you, Miguel.

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In both North America and International, we grew topline, profits, and profitability.

For total Kraft Heinz, Organic Net Sales was up 4 percent in the quarter, fueled by our three pillars.

In North America, we grew Organic Net Sales 1.3 percent, driven by strong price execution, with elasticities approaching more normal levels, as expected.

In International, we saw higher growth at 13.2 percent, driven by pricing executed to offset inflation.

From an Adjusted EBITDA perspective, we grew 6 percent globally, and we saw Adjusted EBITDA Margin expansion across both zones.

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Pricing and efficiencies drove improving Adjusted Gross Profit Margin, increasing 180 basis points versus the prior year.

Margins are approaching 2021 levels, and are enabling our double-digit investment in marketing, R&D and technology.

We increased R&D spend 10 percent versus the prior year, and marketing investment was up 23 percent.

In terms of Adjusted EPS, we grew 12.9 percent versus prior year, driven by our strong Adjusted EBITDA performance, contributing 6 cents.

Below-the-line impacts totaled 3 cents, driven by a positive, 6-cent, one-time tax impact. This was partially offset by unfavorable impacts in non-cash Pension and Post Retirement Medical and Other Expense / Other Income.

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We continue to strengthen our balance sheet, generating Free Cash Flow Conversion of 59 percent, while improving inventory levels.

We also reduced net leverage to 3-point-1 times, approaching our long-term target.

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From a pricing perspective, as Miguel mentioned earlier, our expected pricing for the year has all been announced. In the U.S., price gaps have expanded relative to both private label and branded competition.

We have seen branded competition increase their levels of promotion, while we have remained more disciplined. In the second quarter, branded sold 35 percent of volume on promotion, while we were at 29 percent.

And the returns on our promotional activity continue to improve. Our average ROIs increased approximately 15 percentage points as compared to 2019, and approximately 5 percentage points as compared to prior year.

Slide 28

Looking to volume, we have seen elasticities revert to more normal levels. And for the remainder of the year, we expect volume declines to moderate.

This moderation comes from lapping prior-year pricing, the plans Miguel laid out in U.S. Retail, continued market share gains in Foodservice in North America and International zones, and the re-acceleration in Emerging Markets from Q2 levels.

We expect volume to turn positive in 2024, with future top-line growth balanced between volume and price.

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In order to fund the investments necessary to fuel top-line growth, we are strengthening our P&L by unlocking efficiencies.

At the same time inflation continues to moderate.

In supply chain, we are on track to meet our gross efficiency target of $2.5 billion by 2027.

We closed the second quarter pacing ahead of our $500 million annual target.

We now expect mid-to-high single digit inflation for the year, and low-to-mid single digit in the second half of the year.

The timing of inflation hitting the P&L continues to be impacted by the timing of hedges and contract expiration.

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Turning to our outlook for the year, Organic Net Sales growth for fiscal year 2023 is expected to be up 4 to 6%, with second half growth pacing more in line with our long-term algorithm.

On the gross margin front, we are now expecting year-over-year expansion for 2023 to be between 150 and 200 basis points. Gross margin levels in the second half of the year are expected to be roughly in line with first half as inflation eases and promotions increase. Q4 margins are typically higher than Q3 due to seasonality.

Constant Currency Adjusted EBITDA is still expected to grow between 4 to 6 percent, or 6 to 8 percent when excluding the impact from lapping the 53rd week in 2022.

Based on current FX rates, we expect a half-percentage point Adjusted EBITDA headwind from currency on the full year.

We expect Adjusted EPS to be in the range of $2.83 to $2.91. This includes a negative currency impact of approximately 2 cents at current FX rates, approximately a 4 cent negative impact from non-cash pension and post-retirement benefits, and a negative 6 cent impact from lapping the 53rd week in 2022.

Our outlook contemplates an effective tax rate on Adjusted EPS of 19 percent to 21 percent.

Overall, we had a solid quarter. And we expect the improved momentum from the end of the quarter to carry into the second half of the year.

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As you can see, we are building a virtuous cycle of growth, enabled by disciplined revenue management, continuing to unlock efficiencies, and actively reinvesting back in the business across marketing, R&D and technology to drive future growth.

With that, let me pass it to Miguel for some closing comments.

MIGUEL PATRICIO, CHIEF EXECUTIVE OFFICER AND BOARD CHAIR

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Thank you, Andre.

It’s an exciting time to be at Kraft Heinz. Yet again, we improved profits and profitability.

We’re reinvesting these margin gains back in the business, and our action plans are working and gaining momentum.

All of this gets me very excited about our future.

And you know what I’m also very excited about? Our people!! Our people engagement is the best it has ever been!

Thank you for your time, and for your interest in Kraft Heinz. And thank you to every member of the Kraft Heinz team!

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