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David Palmer

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QUESTION & ANSWER SESSION

Operator: Ladies and gentlemen, thank you for standing by and welcome to The Kraft Heinz Company Third Quarter Results. At this time, all participants are in a listen-only mode. After the speakers' presentation, there'll be a question-and-answer session.

I would now like to turn the call over to your host, Anne-Marie Megela, Global Head of Investor Relations. You may begin.

Anne-Marie Megela

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

Thank you, and hello, everyone. This is Anne-Marie Megela, Head of Global Investor Relations at The Kraft Heinz Company. And welcome to our Q&A session for our third quarter 2022 business update.

During today's call, we may 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 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.

Before we begin, I'm going to hand it over to our CEO, Miguel Patricio, for some brief opening comments.

Miguel Patricio

Chief Executive Officer & Chairman, The Kraft Heinz Co.

Well, thank you, Anne-Marie, and thank you everyone for joining us here today. We are excited. We are proud. We delivered another quarter of strong results. And as we see consumer demand remaining strong and elasticities continue to hold, we see our portfolio of iconic brands strong and very adequate for the moment that we are living in. And we continue investing in these brands and are seeing that this investment is paying off.

Yet, at the same time, we know that the supply chain remains challenging, particularly with inflation and material shortages. I'm proud of the teams as they continue to anticipate and adapt to these challenges.

Where we improve capacity and we're able to meet demand, we actually gained share. At the same time, we continue to advance our transformation, including modernizing our marketing and transforming our portfolio.

As we look ahead, we continue to be cautiously optimistic. We are providing our consumers with solutions that they value, and we continue to unlock efficiencies and reinvest in the business. All of which makes us stronger and positions us well for whatever challenges are still to come.

With that, we are very happy to take your questions.

Operator: Thank you. Our first question comes from Andrew Lazar with Barclays. Your line is open.

Andrew Lazar

Analyst, Barclays Capital, Inc.

Great. Thanks so much. I guess maybe to start, the company had moderated its EBITDA expectations back on September 1st for the third quarter, when you were already about two months into the quarter. Today, you not only beat those expectations, but came in above the initial guidance as well.

So, what came in better than you thought? Are there any timing issues to be aware of that might impact 4Q as a result? And maybe more importantly, do these fluctuations give you any pause with respect to visibility into the business, with the understanding that it's obviously still a very dynamic environment?

Miguel Patricio

Chief Executive Officer & Chairman, The Kraft Heinz Co.

Andrew, thank you for the question. Andre, you may answer this one.

Andre Maciel

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

Sure. Good morning, Andrew. It's Andre. So, Andrew, first of all, we – as Miguel said at the beginning, I think we feel very excited and pleased with the results we achieved in the quarter. And I'll tell you that a lot of things happened in our favor towards the month of September.

First of all, if you might remember, we have executed a new price increase in the month of August and the elasticity turned out to be stronger than what we anticipated, which resulted in strong top line.

Shipments were very good. I think our team did a great job in the month of September to be able to ship at a much better pace than earlier in the quarter, which also helped. We ended up spending less on promotion than we have initially anticipated, which is fine as well because we're being very prudent to put all the promotional expense in our portfolio.

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And finally, we did have about \$30 million of unplanned gains in the P&L, 80% in COGS, 20% in SG&A. And those are mostly anticipations from Q4. Okay. That we were able to do in Q3.

And obviously, as we also have a little contingency, the number given the volatility, right? But all in all, I think we're able to have a lot of those things play in our favor. I think it's a testimony here that the organization is moving with the speed and reacting fast to diversities and remember as well that we maintained the guide for the year in Q3, right? And so, I think we felt confident about the number that we could deliver. And I think we're just reinforcing that now by raising the floor.

And you can count on us to always maintain a transparent dialogue, and at the same time in a very timely fashion like we did back in September when we had news about new inflationary pressure.

Andrew Lazar

Analyst, Barclays Capital, Inc.

Great. That's very helpful. Thanks so much. I'll pass it on.

Operator: One moment for our next question. Our next question comes from Ken Goldman with JPMorgan. Your line is open.

Ken Goldman

Analyst, JPMorgan Securities LLC

Hi. Thanks so much. You mentioned that your supply chain tightness is still mostly caused by factors from your upstream suppliers. This is not an uncommon refrain. We're certainly hearing this from many of your peers.

I'm just curious, can you maybe help us better understand what the specific issues are? You mentioned disruptions, I guess, on ingredients and packaging. Does this suggest that the issues are somewhat temporary? They can fade when the disruptions have passed or are there maybe some structural problems, I guess, that could take longer to fix? Thank you.

Miguel Patricio

Chief Executive Officer & Chairman, The Kraft Heinz Co.

Great. Carlos, I think that's related to U.S. Go ahead, please.

Carlos Abrams-Rivera

Executive Vice President & President-North America Zone, The Kraft Heinz Co.

Yes. What I would say – first of all, thank you for the question. What I'll say is that I think you can see that the environment continues to be challenging. And what I'm really proud of is the fact that our team is doing a terrific job of working through the waves of challenges.

So, as we speak, we are both rebuilding inventory and improving service levels, and we have done that through the quarter. Sequentially in this quarter, I think we continue to see that going forward.

I think what – if I take a step back in terms of overall constraints, what I see is about 80% of those challenges are really due to upstream supply distribution on ingredients and certain packaging materials. At the same time, what I'm saying is it's very asynchronous the way they're recovering.

So, you'll see that in some cases, we are moving quickly and recovering overall in our supply chain. There are a few ingredients that have been a little tighter for us. And I point to things like – have affected us in the past on things like Cold Cuts and then *Lunchables* – I'm sorry, Cream Cheese. And at the same time, even in those categories, we now have recovered and feel good about of our position as we go towards the end of the year.

Ken Goldman

Analyst, JPMorgan Securities LLC

Got it. Thank you.

Carlos Abrams-Rivera

Executive Vice President & President-North America Zone, The Kraft Heinz Co.

Thank you.

Operator: One moment for our next question. Our next question comes from Bryan Spillane with Bank of America. Your line is open.

Bryan D. Spillane

Analyst, Bank of America Securities

Thanks, operator. Good morning, everyone. Maybe build on the previous two questions. You're kind of looking at the current environment now dealing with what you're dealing with suppliers and seeing what you're seeing in the marketplace. Is there any reason that we shouldn't expect that your long-term

targets, which you laid out back in – or you talked a bit about back in September – are targets that we should expect are achievable for 2023 or is this environment still maybe too volatile to be in line with what your long-term targets would be?

Miguel Patricio

Chief Executive Officer & Chairman, The Kraft Heinz Co.

Andre, you may want to answer this question.

Andre Maciel

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

Sure. Good morning, Bryan. Look, as we said back in CAGNY when we unveiled our new long-term growth algorithm, we expect to get there over the years. So, think of it in terms of three years or so. So, we feel good in our – continuing improvement in our performance and we expect to continue to move towards the algorithm, the way that we have communicated back then.

We are probably not ready to give any guidance around 2023 but, yes, the environment is still volatile. As you have been hearing from us and probably from others in the sector about supply chain volatility, which has consequences on availability and the speed of easing our costs.

Operator: Thank you. One moment for our next question. Our next question comes from Chris Growe with Stifel. Your line is open.

Christopher R. Growe

Analyst, Stifel Financial Corp.

Hi. Good morning. I just had a quick question for you in relation to – you showed in one of your charts in the slide deck, private label gaining more share in your categories. It also showed Kraft Heinz doing much better in its categories as well.

And as we look across the store, private label share has been up at a lesser rate over the past few months, although it seems like it's gone up a little bit more so in your categories. I just want to get a sense of did you see incremental risk in your categories from private label share gains as you take more pricing, or do you have more pricing that's been put in place? And then just any change in your thoughts on elasticity in relation to your pricing, which has been very favorable for your business? Thank you.

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Miguel Patricio

Chief Executive Officer & Chairman, The Kraft Heinz Co.

Good morning, Chris. Andre, do you want to answer the question?

Andre Maciel

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

Sure. Thanks for the question. On private label, a few things. First of all, as we have been continuously reiterating, our exposure to private label has been reduced significantly after the two divestitures we had made last year. So, now the average market share in our portfolio is about 11%, wherein across food and beverage it is 20%. So there, we are not impacted.

Second, during the past three years, as part of our transformation, we have been redirecting a lot of our effort and energy around the core portfolio. So, resources have moved there. We have been renovating the core portfolio in a very systematic way, so our portfolio is stronger.

Third, the private label has been increasing the price together with the rest of the players. So as recent as the last four weeks, including already three weeks of October, looking at sellout data, our sellout price is up about 17% up, whereas private label is 16% up. So, price gaps are widely preserved.

We might have seen as well in one of the discussions that we provided that comparing Q2 to Q3, the price gap to private label remains the same. So, we do not see any category where our price gap expanded versus private label, except to Ketchup and *Lunchables*, which honestly the interaction is limited, and we gained share in both of these categories. So, yes, I think we feel good about that.

We don't want to be naïve and overly optimistic because when consumers eventually shift behavior in a very drastic way, things can change, but there is no indication of that as of right now. And honestly, I mean despite the environment, food is proving to be very resilient. The brands too already have been very resilient.

And with unemployment today where it is right now, when I was here back in 2008 – 2011, we only started to see an accelerated shift in behavior when unemployment started to go up, which is far from reality today.

Carlos Abrams-Rivera

Executive Vice President & President-North America Zone, The Kraft Heinz Co.

Yeah. And I think what I would say is we have continued to invest in the equity of our brands, which if we think about the fact that companies really don't have pricing power, brands have pricing power. So, the investments we have made with the quality of the marketing we have improved here at Kraft Heinz

and the commitment we have to continue to invest in our brands going forward also gives us confidence as we continue to manage through the current environment.

Carlos Abrams-Rivera

Executive Vice President & President-North America Zone, The Kraft Heinz Co.

Thanks for your question.

Christopher R. Growe

Analyst, Stifel Financial Corp.

Thank you.

Operator

One moment for our next question. Our next question comes from Alexia Howard with Bernstein. Your line is open.

Alexia Howard

Analyst, Sanford C. Bernstein & Co. LLC

Good morning, everyone.

Andre Maciel

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

Good morning.

Miguel Patricio

Chief Executive Officer & Chairman, The Kraft Heinz Co.

Good morning, Alexia.

Alexia Howard

Analyst, Sanford C. Bernstein & Co. LLC

Okay. I look at the lineup of products on page 19 of the presentation and they really do seem to be meeting the moment in terms of the consumer need for convenience and affordability. But I'm just wondering about your thoughts on the recent White House Conference on Hunger, Health, and Nutrition that happened last month for the first time in 50 years, I think. And there were a lot of initiatives coming out of that with respect to front-of-pack labels, a very tight definition of what a healthy food is, educating consumers and health professionals on the importance of good nutrition. And I wonder just how you're – it may be too soon, but how you're thinking about those types of developments in the industry over the coming months and years and how that might shape your plans for innovation and the portfolio going forward. Thank you and I'll pass it on.

Miguel Patricio

Chief Executive Officer & Chairman, The Kraft Heinz Co.

Let me, Alexia, start answering this question and then see if Carlos wants to complement. Nutrition is part of our long-term strategy. It's part of our agenda. It is a very important part of our ESG goals for the future. We've been renovating our portfolio throughout the years, reducing or eliminating dyes and artificial ingredients. And we have a global agenda, a very specific agenda on reducing salt and sugar, which are two critical things in our portfolio that we have a responsibility to do.

We are on the way to achieve the targets that we put in place until 2025. I mean just to give you an example, we changed the formulation of our *Capri Sun* this year. We reduced 40% of the sugar content. And to put it in perspective, that is 40 million pounds of sugar per year that we reduced. We continue committed to that for the short, medium, and long term to make our products more nutritious.

Carlos Abrams-Rivera

Executive Vice President & President-North America Zone, The Kraft Heinz Co.

But I will add to Miguel's point, which I think is right on, is the fact that this is a commitment we have for the long term. Every single time we are renovating our portfolio, we're putting in the view of how do we continue to improve our products overall, not just because it's the right thing to do, but also because that's what consumers want us to do. So, I think that is happening and you – obviously you can see very clearly in terms of commitment to sugar reduction, to salt reduction, how we continue to work with communities and improving the food and security situation. And this is something that, as a company, we are committed to, and we'll continue to as we go forward.

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Miguel Patricio

Chief Executive Officer & Chairman, The Kraft Heinz Co.

We are a buyer of tomatoes and beans. And in our heart, we are an agricultural company and we've been investing a lot in that sense in plant-based. I mean, you see what we are doing in Europe with our Beanz, with a project of launching new Beanz-based products with *Heinz Beanz Burgerz*, with *Heinz Beanz Hummus*, Protein Pots and a portfolio of innovation for the next five years related to that.

Here in the US, we are very proud to announce this week that we are launching our plant-based cheese, which, by the way, is an incredible product. Very different from what is in the market. It melts. It tastes like cheese. It smells like cheese and melts like cheese and is very different from anything that is in the market. So, we're absolutely committed on the nutritional agenda.

Alexia Howard

Analyst, Sanford C. Bernstein & Co. LLC

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

Operator: One moment for our next question. Our next question comes from Stephen Powers with Deutsche Bank. Your line is open.

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

Yes. Hey. Good morning. I wanted to ask on gross margin progression. Across the consumer goods space broadly, I think we're beginning to see more signs, and evidence of gross margin stabilization, if not recovery, with results across many companies either coming in ahead of consensus expectations or improving sequentially, or even starting to improve year-over-year. And every portfolio is obviously different, but you're not yet in that position. So, I'm curious as to just how are you're thinking about the progress of gross margin. What kind of framing of expectations we should have going into the fourth quarter and the prospects for improvement as we build into fiscal 2023?

Miguel Patricio

Chief Executive Officer & Chairman, The Kraft Heinz Co.

Andre, you may answer this question, please.

Andre Maciel

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

Sure. Thanks for the question. Look, we have been – as we said a while ago, have been pricing to protect against dollar inflation. So, dollar-for-dollar. And we have been doing that now for the second quarter in a row. So, both in Q2 and now in Q3, price was in line with inflation and price plus gross efficiencies was ahead of inflation.

Given that we had, in Q3, as we initially said back in September, some incremental pressure in selected places and we took action already on it, there is this continuous lagging effect. So, we expect Q3 to be the bottom of our gross margin and you should expect to see a sequential improvement in Q4 in comparison to Q3.

Operator: Thank you. One moment for our next question. Our next question comes from David Palmer with Evercore ISI. Your line is open.

David Palmer

Analyst, Evercore ISI

Thank you. Just a follow-up on some of the supply chain stuff. Your case fill rates in your slide deck, you say they were in the low-90s in the third quarter and that's better than the high-80s that it was in the first quarter. But I was slightly surprised to see that that fill rate was the same as 2Q. Is that a result of that upstream supplier effect that you're talking about? And I'm wondering how you're thinking about progress there. Do you have visibilities to getting that fill rate back? I'm sure you want to get back to the high-90s. And when could we expect bigger leaps and improvement in fill rates? Thanks.

Miguel Patricio

Chief Executive Officer & Chairman, The Kraft Heinz Co.

David thanks for the question. Carlos, please.

Carlos Abrams-Rivera

Executive Vice President & President-North America Zone, The Kraft Heinz Co.

Yeah. What I'll say is that exactly what you said, it is connected to the availability of certain ingredients in the upstream. But at the same time, our commitment with our customers is to continue to improve that.

I'll tell you that as we continue to navigate the situation in terms of those capacity constraints, what I'll say is that we also are looking to see how to work differently with the capacity that we have available to us. And let me give you a couple of examples of how we're doing that.

We actually are ingesting data directly from our customers in a way that allows us to better deploy our inventory to reduce out-of-stocks. We started that with a pilot with one particular retailer and that allows us to actually reduce the amount of inventory out-of-stocks in their store by 40%.

We now have expanded that program and now we're ingesting more data from different customers that allows us to then make sure that we are putting the right inventory in the right stores and giving the right signals into our production so that we can maximize the available capacity that we have in our plants.

So, we're both working upstream with suppliers, but it's also us being smarter and having better capabilities internally to deploy our inventory, to improve overall service levels, which we're committed to do.

Thanks for the question.

Operator: One moment for our next question. Our next question comes from John Baumgartner with Mizuho. Your line is open.

John Baumgartner

Analyst, Mizuho Securities USA LLC

Good morning. Thanks for the question. Miguel, wondering if you can touch on the nice reversal you had in Q3 regarding market shares relative to your branded competition. How would you break that down between the benefits from some of the supply chain constraints easing, the pricing differentials in the market as opposed to how much of that is derived from just underlying changes to your execution in the market on more of a like-for-like basis? And how sustainable do you think that performance will be in the share gains versus brands going forward? Thank you.

Miguel Patricio

Chief Executive Officer & Chairman, The Kraft Heinz Co.

Thanks for the question. So, let me give you my perspective, and then Carlos can go further on that answer.

We are excited to keep the levels of market share even with the problems that we continue facing on supply. I mean, we would be gaining a lot of share if we would not be facing shortages on raw materials.

A good example of that is *Capri Sun* and *Lunchables*, where in the previous quarters, we had problems with supply shortages of raw materials, we lost share and now we are in record share gains on these two brands. So, I actually am optimistic that we can move further on market share. Carlos, please?

Carlos Abrams-Rivera

Executive Vice President & President-North America Zone, The Kraft Heinz Co.

Yes. I would say to build on Miguel's point, this is a combination of the continuing investments that we have made in renovating our brands, investment in improving the quality of our marketing communication and then, as you said, unlocking some of the capacity in some key brands. I think the examples Miguel gave around *Lunchables* and *Capri Sun*, in which we saw the improvement on inventory and CFR and then our ability to actually then go into market and then drive event-based promotions that allows us to continue to grow those particular categories during the back-to-school period, which was basically a phenomenal result for us in terms of performance.

As we go forward, when you see the places that we continue to have challenges in terms of capacity, we know that once we unlock those, we also have an opportunity to then continuously grow our consumption as we go forward. And those, as I've said before, are areas like our Cold Cuts and Cream Cheese that are slowly getting into better position in our inventory. And now as we go into the holidays, making sure we protect their ability to then go into those event-based promotions, where during that time of year, consumers are really looking for our brands.

So, when you take a step back, I will say, it's a great combination of the work we have done over the last year and a half for us to improve internally the equity of our company and at the same time now see the benefit of us being able to now go back into the marketplace in a more aggressive way. That allows us to then continue to drive consumption and whole penetration on our brands.

John Baumgartner

Analyst, Mizuho Securities USA LLC

Thank you.

Anne-Marie Megela

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

Operator, we have time for one more question.

Operator: One moment. Our next question comes from Michael Lavery with Piper Sandler. Your line is open.

Michael S. Lavery

Analyst, Piper Sandler & Co.

Thank you. Good morning. I just wanted to come back to the Foodservice opportunity you've called out. And I think specifically, you said roughly half of the top 50 QSRs are distribution opportunities for you. Can you just give us a sense of maybe what kept you from already being in some of those accounts? How sticky are those relationships? And what's sort of the expectation for how many of those could come your way?

Miguel Patricio

Chief Executive Officer & Chairman, The Kraft Heinz Co.

I would ask Carlos to answer that question and then Rafael, who is with us on this call, the President of the International Zone, where we have great momentum in Foodservice, by the way.

Carlos Abrams-Rivera

Executive Vice President & President-North America Zone, The Kraft Heinz Co.

Yeah. Look, I think let me start with the comment Miguel just made. I think if you look at our business in North America and year-to-date, we're growing and growing market share. So, we feel very good about our performance so far.

But I guess I will tell you this, for us, it's a critical channel as we go forward. It is one that we really have thought about how do we continue to transform the organization internally. So, we have done things like changing the leadership and reoriented our focus from operators to advanced distributors.

We have done things like making sure that our Foodservice now has a different role within the North America Zone, that is from what we used to see as basically a stable contributor to now a growth driver. We have simplified and renovated the portfolio. I'll tell you that we have reduced about half of our SKUs that we had in 2019. At the same time, we have improved quality. And then, finally, we continue to enhance our overall distribution.

Now part of the point that you made around how do we continue to unlock some of the opportunities we have in QSR is us continuing to invest in the capacity of the business. So, we're also making strong investments in CapEx in order for us to support the opportunity for us to continue growing in our Foodservice channel.

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Over the last two years, that number is over \$100 million that we have invested. So that allows us now the opportunity to have those conversations with QSRs in a way that truly unlocks opportunities for us to continue growing.

Now that's a view of North America. Let me pass it out to Rafael to give you a view also of our International side.

Rafael Oliveira

Executive Vice President and President, International Markets, The Kraft Heinz Co.

Yes. Look, it's not very similar to that. The opportunity in Foodservice is significant. And you can see it has been a core pillar for our results in the last few years and this quarter is no different. You can see from the numbers we released, we are growing actually very fast and twice the rate of the industry.

So, you can attribute that part of it was the slowdown that happened during the pandemic. Across International, we do compete with some global players, but also with some local players. And a lot of them specialize in Foodservice, so during the pandemic they suffered a lot, and some of them either went bankrupt or had to downsize their operations significantly.

We didn't. We maintained the same level of investments. And consequently, coming out of the pandemic in most of the countries across the world, I mean, we are riding ahead of it. So, we continue to be excited. I mean, QSR is the core. Our products, especially within the sauces environment goes very hand-in-hand with the QSR industry.

And we still have a long way to go. I mean, our estimate with the data available is that we are about between 3% and 4% market share of the sauces category in Foodservice. So, there is significant room ahead. And we're going to continue to do that, driving our chef-led model, where we have invested in chefs that partner with those customers, driving innovations that have been very well received.

So, it should be a continuous source of sustainable growth for us.

Michael S. Lavery

Analyst, Piper Sandler & Co.

Okay. Great. Thank you.

Anne-Marie Megela

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

Thank you, operator. I'm now going to hand it over to Miguel for some closing commentary.

Miguel Patricio

Chief Executive Officer & Chairman, The Kraft Heinz Co.

I would like to finish with a quote. A quote from a famous legendary car racer on Formula 1 that once said, "if it's raining, I can pass 15 cars. But when it's sunny, I cannot." Let me tell you – it's not raining; it's pouring.

But we are super excited at this moment because we are seeing there's a great moment of opportunity, and we've been able to navigate through the uncertainties of the short term and adapt, and we build very fast at the same time that we are continuously building our future. We are excited with what we have ahead of us. Thank you very much.

Operator: Ladies and gentlemen, that conclude today's presentation. You may now disconnect and have a wonderful day.
