The Kraft Heinz Company

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COMPANY PARTICIPANTS

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

Miguel Patricio
Chief Executive Officer & Chair of the Board, The Kraft Heinz Co.

Carlos Abrams-Rivera
President, The Kraft Heinz Co.

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

OTHER PARTICIPANTS

Andrew Lazar
Analyst, Barclays Capital, Inc.

Peter Galbo
Analyst, BofA Securities, Inc.

John Baumgartner
Analyst, Mizuho Securities USA LLC

Stephen Powers
Analyst, Deutsche Bank Securities, Inc.

Ken Goldman
Analyst, JPMorgan Securities LLC

Michael S. Lavery
Analyst, Piper Sandler & Co.

Jason English
Analyst, Goldman Sachs & Co. LLC

Matthew E. Smith
Analyst, Stifel, Nicolaus & Co., Inc

Robert Moskow
Analyst, TD Cowen

QUESTION AND ANSWER SESSION

Operator: Good day and thank you for standing by. Welcome to The Kraft Heinz Co. Third Quarter Results Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. Please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker today, Anne-Marie Megela, Global Investor Relations.

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

Thank you and hello, everyone. Welcome to our Q&A session for our third quarter 2023 business update. During today's call we may have 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 risk and uncertainty. 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 and 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 remarks.

Miguel Patricio
Chief Executive Officer & Chairman, The Kraft Heinz Co.

Well, thank you, Anne-Marie, and thank you all for being with us today. And before opening the call for questions, I just would like to thank Kraft Heinz, and my entire team, for another great quarter.

And again, I would just like to highlight some positive aspects about this quarter. We are generating accelerated profitable growth fueled by our three pillars. Our share and volume trends are improving as a result of the action plans that we are implementing. And we continue to strengthen our balance sheet, hitting our target net leverage of approximately 3 times. And then we continue to invest in the future with another quarter of significant investments in marketing, technology, and R&D.

with that, I have here with me today Andre and Carlos. And so let's open the call for Q&A.

Operator: Thank you. One moment for questions. Our first question comes from Andrew Lazar with Barclays. You may proceed.

Andrew Lazar
Analyst, Barclays Capital, Inc.

Great. Thanks. Good morning, everybody.

Carlos Abrams-Rivera
President, The Kraft Heinz Co.

Morning.

Andrew Lazar
Analyst, Barclays Capital, Inc.

In slide 33 of the slide deck this morning, you call out branded promotional activity as still below 2019 levels. And Kraft's activity is below branded. So one clarification. Is the branded figure you highlight all food categories? Or just the branded players within Kraft Heinz's categories?

And then I guess based on your plans for the remainder of the year and looking into 2024, I guess how would you anticipate these metrics shifting? Do you expect branded promo levels to return to historical levels? And would you expect Kraft Heinz to narrow the gap versus branded? Or how do you see those metrics moving from here?

Thanks so much.

Carlos Abrams-Rivera
President, The Kraft Heinz Co.

Thanks, Andrew. It's Carlos. Let me first address your point about clarification. What you see in the page, it is about those branded players that do compete with Kraft Heinz.

The second part in terms of how do we think about our promotions as we go forward. First, I will tell you that I'm not going to comment what other companies may or may not do. But I will tell you is that, one, we're not going back to 2019 levels. We are going – at the same time as we go forwards into Q4, we know there's a seasonality to our business.

And as we have said earlier, we're going to make sure now as we go into the holiday season that we make the right investments to support our business.

Now, I'll say that at the same time, we going to continue with the same level of discipline that we have shown until now to make sure that our investment comes with the right level of ROIs as we go forward.

Thanks for the question, Andrew.

Andrew Lazar
Analyst, Barclays Capital, Inc.

Thank you.

Operator: Thank you. One moment for questions. Our next question comes from Peter Galbo with Bank of America. You may proceed.

Peter Galbo
Analyst, BofA Securities, Inc.

Hey, guys. Good morning. Thank you for taking the question.

Carlos Abrams-Rivera
President, The Kraft Heinz Co.

Good morning.

Peter Galbo
Analyst, BofA Securities, Inc.

Morning. I guess just in North America on the volume piece, there's a fair amount of discussion, both – in the prepared remarks around kind of meats being a drag this quarter. And you discussed a bit about how giving up maybe some volume to maximize profitability and gross margins. But then you also kind of discuss how service levels aren't where you want them to be, particularly in sliced meat. And you're expecting improvement on that going forward.

So I guess the question is just, what should we be taking away from those comments? Are you kind of continuing to scale back on volume and focus on the profitability there? Or should we think about a volume share recovery and maybe some headwinds to the margin mix that come with that? Particularly as we think about North America volume.

Thanks.

Carlos Abrams-Rivera
President, The Kraft Heinz Co.

Well, thanks. First of all, I think that – let me just put into context kind of the volume question that you see in North America.

First, I would say that what you see for us as a company is we continue to improve sequentially from what you saw in Q3 – I'm sorry, Q2. And that if I look holistically at the company first, you'll see that we continue to drive the things that are working for us.

We are continuing to grow in emerging markets, where we grew in volume mix, year-over-year, now in Q3. That we continue to expand in foodservice. And we believe that it continues to drive opportunity as we go forward.

And then specifically in the US business, you see how the investments we have made in terms of improving share of shelf. Our investment in marketing, our investment in innovation, and our improvement in CFR have continued to improve overall actions.

Now, as we think about our total portfolio, there are some places in which we're going to remain focused and disciplined on how we invest back into the business. And I think you referred to our meat business, where we want to make sure that we are not going to be just following unprofitable growth, but that we are going to be rational and disciplined on how we invest in that business in order for us to drive the right consumer pool. But at the same time, not sacrificing the overall profitability of the business that we need to maintain.

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

I will just add that in our long-term algorithm, volume is important to us. So, in our 2% to 3% growth, it comes from a balanced contribution between price and volume. So, volumes matter, but as Carlos said, we are seeking profitable volume growth.

We are not trying to maximize gross percentage margin. We are trying to deliver profitable, sustainable growth, ultimately translating to sustainable EPS growth.

Carlos Abrams-Rivera
President, The Kraft Heinz Co.

Thanks for the question.

Peter Galbo
Analyst, BofA Securities, Inc.

Great. Thanks very much.

Operator: Thank you. One moment for questions. Our next question comes from John Baumgartner with Mizuho Securities. You may proceed.

John Baumgartner
Analyst, Mizuho Securities USA LLC

Good morning. Thanks for the question. Carlos, I just wanted to touch on the meats business again, coming back to Peter's question.

You point out it's an Energize business. But the category has seen price competition. Private label is gaining share. That was not happening at the outset during COVID, during work from home. It just seems as though the ambition to rebuild or maintain profit, it's hard to square that with what looks like a need to reinvest more, given the declines.

So how do you think about resource allocation? Your willingness to continue reinvesting in that business, relative to the point where you just say, hey, the assets may be better suited to another owner, like what happened with the nuts business? Just curious about your willingness to stick with it, given a very tough backdrop in the category. Thank you.

Carlos Abrams-Rivera
President, The Kraft Heinz Co.

Andre, why don't you start here and I can build.

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

Sure. So, as we have said before, different parts of our portfolio, they have different roles. And these roles might change over time.

The role for meats right now is to rebuild the profitability, which has eroded 50% in the last five years, while continuing to invest in the brand to improve and innovate, so then at some point, it's back and in a position to grow in a profitable way again. And that's what we're doing.

In Q3, for the second quarter in a row, this part of the portfolio declined mid-to-high single digits on the top line but grew mid-to-high single digits on the bottom line. Not by milking the brand, but by making the right type of investment and the right type of actions that are appropriate for this portfolio right now.

For us to be chasing volume with this in an unstable way only through promotion, that's not a game that we want this brand to play.

Carlos Abrams-Rivera
President, The Kraft Heinz Co.

The only thing I would add is that even in a – if you think about our cold cuts business within our meat business, we have continued to improve our CFR. But that is the one area where we're still not at the right level of service that we want for the year. You will see that progression.

At the same time, as we have improved our service, we have also began to see improvement in our share, too. So, if you look at month-to-date through October, we are seeing that, in fact, our cold cuts business is beginning to gain share. So, we are just going to be looking at the category in a very disciplined way to make sure we are doing the right things, as Andre said.

John Baumgartner
Analyst, Mizuho Securities USA LLC

Okay. Thank you.

Carlos Abrams-Rivera
President, The Kraft Heinz Co.

Great question, John.

Operator: Thank you. One moment for questions. Our next question comes from Stephen Powers with Deutsche Bank. You may proceed.

Stephen Powers
Analyst, Deutsche Bank Securities, Inc.

Great. Thank you. Good morning. I wanted to shift gears, if I could, and talk about the momentum you have in both foodservice in emerging markets. And just get your perspective on your confidence if that momentum can continue. And perhaps how the organizational changes that you announced today internationally might contribute to that momentum as we go forward.

And also, Andre, if you could – if I could tack on a second question. Just now that leverage has dipped below that target level of 3 times, just wondering how you're starting to think about prioritization of cash going forward. Because the cash generation has been good. I presume cash will build. And just think about how you're thinking about allocating that cash going forward.

Thank you.

Carlos Abrams-Rivera
President, The Kraft Heinz Co.

Thank you for the question, Stephen. Why don't – Andre, why don't you comment on the capital allocation? Then I'll talk about food service and emerging markets.

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

Sure. So on capital allocation, our priorities remain unchanged. That means continue to fund our very competitive dividend, maintain investment grade, and prioritizing organic growth, like we have been consistently doing during the past three, four years.

We are very proud that we were able to get to this level of leverage one year ahead of our initial expectation. And that's very important, that shows that the business is strong. That the organization is focused on delivering sustainable performance, not only on the EBITDA side but also in cash conversion, which is a remarkable improvement for this organization.

And now, I think that puts us in a very good situation to assess options to deploy this cash. And we are looking at those.

Carlos Abrams-Rivera
President, The Kraft Heinz Co.

Thanks, Andre. Let me comment first on foodservice. I feel very optimistic about our plans in foodservice. And we have really been working on building a foundation for the future.

And if you think about the way we're thinking about building our business, it basically three areas. We continue to make the investments in our chef-led models. And that's driving positive performance for us.

We also are making sure we are competing in more attractive and better margin channels. Things like our independent and non-commercial channels versus traditional, where we have been limited to.

And then lastly, we are seeing much more powerful innovation that allows us to leverage the technology investments we have made and bring those into the product forefront, whether that is in things like our HEINZ REMIX machines and how that actually creates an opportunity for us to separate ourself for the future.

Now, if you look at the full year for foodservice, expectations point to growth somewhere in the low-to-mid double digits versus last year. And we are – I will point out that we're gaining share too in both North America and the International zone.

And then let me just make sure also that it's clear that if we think about our long-term algorithm, foodservice is expected to grow about 5%. And we are going to be well above that level in 2023.

Now, if I switch over to our emerging markets, the one great thing that we also have been investing behind in emerging markets is kind of the discipline of our go-to-market model.

And for us, the reason we feel so confident is because that is a data driven go-to-market model that allows us to drive distribution. That we can then build the precedent at existing markets and into new ones. And we have done that several times, on several occasions. In fact, we are on track to implement our model in 90% of our emerging markets by the end of this year. And just to remind you, the first phase is building distribution, then we build the infrastructure. And then we go into the full structure in order to truly take advantage of our emerging business.

I think in emerging markets I will just add the comment that in Q3 we saw a temporary headwind as we think about, particularly in Asia, where we have a business in Indonesia that is most surrounding around Ramadan season. And while we saw some travel shifting – spending shifting to travel away from gifting, and we have a gifting business in Indonesia. So that was a temporary thing.

But as we think about the year ahead, we believe that we'll get back to the right levels of performance also in our Indonesia business. Thanks for the question.

Stephen Powers
Analyst, Deutsche Bank Securities, Inc.

Thank you.

Operator: Thank you. One moment for questions. Our next question comes from Ken Goldman with JPMorgan. You may proceed.

Ken Goldman
Analyst, JPMorgan Securities LLC

Hi. Thank you. Just a quick one. In your slide presentation from the prior quarter, 2Q, you mentioned you were expecting positive volume growth in 2024. I may have missed it, but did you reiterate that today in either the slides or any of your commentary?

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

Yes. We did. And that's the case; nothing changes. So, nothing change in terms of volume expectation, as Carlos said. So, we said and it happened that volume would improve in Q3 sequentially to 2Q, and it did. And to improve in Q4 versus Q3. And at some point in 2024, the volumes will turn positive. Okay?

Carlos Abrams-Rivera
President, The Kraft Heinz Co.

In fact, I think everything that we've seen right now in the market mean our actions are working. And just gives us more confidence as we think about our 2024 plans.

Ken Goldman
Analyst, JPMorgan Securities LLC

Sorry. Can I just quickly clarify that? I thought – I think people interpreted the commentary about positive volume as net throughout 2024. It will be positive. But I think the comment that was just made was at some point in 2024 it'll turn positive.

I guess I'm curious. Do you expect at the end of the year your total 2024 volume to be positive? I just wanted to get a sense, so people aren't over-modeling the year.

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

I'm not going to give guidance in 2024 right now. What I just said is what we have been saying all along.

Operator: Thank you. One moment for our next question. Our next question comes from Michael Lavery with Piper Sandler. You may proceed.

Michael S. Lavery
Analyst, Piper Sandler & Co.

Thank you. Good morning. I know we covered meat a little bit just on volume and how to think about its role in the portfolio side.

But I want to just come back to one specific piece. You've talked about your approach and being disciplined and rational. But in your prepared remarks, too, you also specifically said that in cold cuts, you're investing to hit the right price points.

Can you just maybe unpack that a little bit? And reconcile how those two go together? And what exactly you mean by those investments on the price side?

Carlos Abrams-Rivera
President, The Kraft Heinz Co.

Yeah. Good question. Happy to clarify, Michael.

What I'll say is that we need to make sure that we are responding to the moments in which consumers are going to be looking for the right solutions for whatever – whether it's at the holiday seasons or all the points throughout the year.

And as we go into Q4, for example, we'll make sure that we're making the right investment. However, we will be doing that with the right level of discipline to make sure we drive the right returns from that investment.

So with the idea that we have simply – like we stated earlier, we are not going to just be chasing volume. We are going to be looking for what is the way for us to drive profitable volume in a way that combines our ability to kind of continue to build our businesses through the right investments in marketing and using the full array of revenue management tools in order for us to be able to drive the right efficiency and effectiveness of our investments.

Michael S. Lavery
Analyst, Piper Sandler & Co.

And so some of what you're saying would be the depth of promotion that is part of how – you want to make the investment on price point. But the discipline is the depth of that, not to push it too hard. Would that be a right interpretation?

Carlos Abrams-Rivera
President, The Kraft Heinz Co.

I think that would be one of the things that you could say. But I think on top of that, if you think about the full array of our revenue management tools, pricing, price pack architecture, other tools at our disposal that allow us to actually think about what is the right investment in order for to us to maintain the level of improvement of profitability that we have seen deteriorate over the last few years.

Michael S. Lavery
Analyst, Piper Sandler & Co.

Okay thanks so much.

Carlos Abrams-Rivera
President, The Kraft Heinz Co.

Thank you.

Operator: Thank you. One moment for questions. Our next question comes from Jason English with Goldman Sachs. You may proceed.

Jason English
Analyst, Goldman Sachs & Co. LLC

Hey. Good morning, folks. Thanks for slotting me in.

Carlos Abrams-Rivera
President, The Kraft Heinz Co.

Good morning.

Jason English
Analyst, Goldman Sachs & Co. LLC

So, I guess congrats are in order. Congrats, Miguel, for a good run and the improvements you've driven while at the helm of the company. And congrats, Carlos, on the upcoming promotion and responsibility. So, on that topic, I guess the starting off question is what do you expect to do different? Should we be bracing and expecting any strategic shifts? Or given that you've been an architect of many of the plans that have been in place, is this going to be sort of business as usual?

Carlos Abrams-Rivera
President, The Kraft Heinz Co.

First of all, Jason, thank you for the kind words. And I'm certainly very much humbled and excited about the opportunity ahead for me and for the company.

But what I would say is that as you pointed out, I've been sitting next to Miguel for the last almost four years now. And I think a number of things that we have done as a company, we certainly have done together.

And then strategically, I think that I am certainly committed to the three growth pillars that we have going forward. That is how we continue to drive our expansion in emerging markets. How we continue to see foodservice as a great growth for us. And then the growth platforms within our US business.

At the same time, you also probably read some of the changes we're making in our structure in order to actually help us accelerate some of those things that we have done.

For me, one of the critical aspects of this time where I have been transitioning as – and coming to the new role in January, has been listening to the organization and making sure we have the clarity of our strategy. And our structure is going to follow that clarity.

So, some of the things you'll see in terms of us being able to have a bit of breaking down the international zone, which has worked in the past well for us, but now as we go into a new way of us growing, allows us to be a little more focused on those emerging markets in which we're going to make some additional investments.

That I think is part of us thinking differently about how we bring that structure and sort of that strategy to life in our structure.

So that's I think some of the things that you're going to see is, what are the places that with the lens of the jobs to be done for the strategy of the company, that we can maybe arrange certain things where we can truly leverage the scale of the company, the scale that we have been investing behind in our technology and our marketing capabilities, and to deploy them against the three pillars strategically that I'm very much aligned with.

Jason English
Analyst, Goldman Sachs & Co. LLC

And should we expect inorganic solutions to come into the fold a little bit more so, now that you're balance sheet is in a better situation?

Carlos Abrams-Rivera
President, The Kraft Heinz Co.

As Andre said earlier, we continue to look at opportunities. But I would say, that's something that is part of our ongoing thoughts about how do we continue to see of – the active view of our portfolio. But there's nothing today that I would say that we would be announcing. Andre, anything else you would add?

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

No. I think as we consistently have said before, I think our priority is the organic business. And M&A, if it happens, it has to help us accelerate our organic strategy. It has to be fully consistent, like we have done. Last four acquisitions all taste elevation and three of them in emerging markets. They have to be accretive to our top line, bolt-on type of acquisitions. That's what we are focusing on.

Jason English
Analyst, Goldman Sachs & Co. LLC

Understood. Thank you very much.

Carlos Abrams-Rivera
President, The Kraft Heinz Co.

Thank you, Jason.

Operator: Thank you. One moment for questions. Our next question comes from Matt Smith with Stifel. You may proceed.

Matthew E. Smith
Analyst, Stifel, Nicolaus & Co., Inc

Hi. Good morning. Wanted to ask a question. Your productivity savings have been very strong this year. And you already increased your target for the year. Those have in part been used to have a stepped-up level of investment behind marketing, R&D, and innovation.

But as we look forward, can you sustain this level of incremental savings into 2024? Or should we expect to return to the target of $500 million? And after this year of stepped-up investment, do you believe you're exiting with the appropriate level of investment across the business? Or do you plan to continue to invest at an elevated rate as we look forward?

Carlos Abrams-Rivera
President, The Kraft Heinz Co.

Maybe, Andre, if you could speak to our efficiency plans.

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

Sure. So look, at this point, we still are committed to deliver the 3% of COGS of $500 million on a go forward basis.

But as we have said before, our benchmark is really on the 4% level, which we are achieving this year. Keep in mind that this year as well, we had a lot of, let's call, gettables from inefficiency that were generated throughout the pandemic. That's also helping.

But we feel good about how our supply chain organization today is operating at completely superior levels with very stable service levels. And we can be a lot more forward-thinking, which gives us confidence in delivering at the rate of 3% that we have talked before.

From an investment standpoint, I think that this also has been a great year, because we have been able to deliver very solid bottom line growth, while really resetting the investment levels from the prior company for the future, which means that I think a lot of the reset has happened. There are still places that we want to invest more. But I think we took advantage of this year to really reset the level of investments to a very good level.

Matthew E. Smith
Analyst, Stifel, Nicolaus & Co., Inc

Thank you for that. I can pass it on.

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

Thank you.

Operator: Thank you. One moment for questions.

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

Operator, this will be the last question.

Operator: Thank you. And our last question comes from Robert Moskow with TD Cowen. You may proceed. Robert Moskow, your line is now open.

Robert Moskow
Analyst, TD Cowen

Hey. Can you hear me now?

Carlos Abrams-Rivera
President, The Kraft Heinz Co.

Yes.

Robert Moskow
Analyst, TD Cowen

I'm sorry about that. So, this is kind of a what if question. And maybe you might not want to ask – answer what if questions. But we're all watching top line growth kind of decelerate in the US. And the US retail is such an important part of your mix.

So, I guess my question is, if we're in a scenario where we're kind of in a 0% to 1% kind of sales growth environment next year, just for your categories, what would your philosophy be on an EBITDA basis? Like, would you still drive to drop savings to the bottom line to hit the mid-single digit EBITDA? Or would a slower top line environment necessitate a slower EBITDA growth kind of target?

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

Okay. Good morning, Rob, and good to hear back from you. Look, we believe that for us to grow top line in a profitable, sustainable way is critical.

So, in an event where our industry is 0%, I think that doesn't change the game that we're trying play. Because I don't know if you are implying that we will start to go aggressive on promotions to try to get volume through market share in an unproductive, unsustainable way. If that's what you're asking behind your question, I'll tell you that's not a game we want to play.

So, I will just say that our strategy continues the same. It's working. And I think we feel that we're heading in the right direction. I don't want to make a change in direction because of temporary situations in the industry.

Robert Moskow
Analyst, TD Cowen

Okay. Thank you.

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

Thank you.

Carlos Abrams-Rivera
President, The Kraft Heinz Co.

Thanks, Robert.

Operator: Thank you. I'd now like to turn the call back over to Carlos Abrams-Rivera for any closing remarks.

Carlos Abrams-Rivera
President, The Kraft Heinz Co.

Thank you. So, before we leave here, I just wanted to acknowledge and take a moment to thank Miguel for all the support and trust that he has showed to me personally. And for everything he has done for our company as he has built this tremendous and strong foundation.

I can tell you that today, Kraft Heinz is a much stronger company because in 2019 Miguel Patricio put this company on his back and carried us forward. And I am forever grateful for being part of his team as we all worked together to transform Kraft Heinz.

And as I take over as the next CEO of Kraft Heinz, I'm proud of where we have been as a company and even more thrilled about where we're going. And thank you all for joining us today.

Operator: Thank you. This concludes today's conference call. Thank you for participating. You may now disconnect.