The Kraft Heinz Company

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QUESTION & ANSWER SESSION

Operator: Good day and thank you for standing by. Welcome to The Kraft Heinz Company Second 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. To ask a question during the session, you will need to press star-one-one on your telephone. 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. Please, go ahead.

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 second quarter 2022 business update.

During our remarks today, we will make some forward looking statements that are based on how we see things today. Actual results may differ due to risk and uncertainty. And these are discussed in our earnings release and our filings with the SEC.

We will also discuss some non-GAAP financial measures today during the call. And these non-GAAP financial measures should not be considered a replacement for, and should be read together with, GAAP results. And you can find the GAAP to non-GAAP reconciliations within our earnings release and the supplemental materials posted at ir.kraftheinzcompany.com.

Before we begin, I'm going to hand it over to our CEO, Miguel Patricio, for a few quick opening remarks.

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

Well, thank you, Anne-Marie, and thank you, everyone, for joining us today. I wanted to acknowledge the fact that we are living under a lot of uncertainty in regards the external world. And in that sense, I want to thank my team and to congratulate my team for delivering another quarter of very solid results.

Of course, we are mindful of the current inflationary environment and how it affects our consumers and our customers. But we continue to develop solutions that benefit our consumers and our retailers.

Our relationships with retailers continue to strengthen. And we have improved inventory and service levels, so we can have now more optionality to execute more mutually strategic programs.

Well, with that, we are happy to take your questions.

Operator: Thank you. And as a reminder, to ask a question please press star-one-one on your telephone. Please stand by while we compile the Q&A roster. And our first question will come from Bryan Spillane from Bank of America. And your line is now open.

Bryan D. Spillane
Analyst, Bank of America Securities

All right. Thank you, operator. Good morning, everyone. I had just one clarification question and then a second question. The first one, just as a clarification, Andre, in the slide deck, I think its slide 27, where you talk about the – there's a portion or a section in there about gross margin, and it shows gross margin at 30.3%.

Just want to make sure, that is not adjusted, right? So that's just your reported gross margin. And I think, as we did in the adjusted gross margin calculation, it was like 31.5%. So just wanted to clarify that that margin that you're – that you put in the slide deck is reported, not adjusted?

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

Good morning, Bryan. Thanks for the question. Very good, by the way. So, yes, you're right. So this is the GAAP gross margin. So to get to adjusted, you need to increase this number by 110 basis points due to the change of unrealized hedge on commodities, okay? And in fact, if you adjust for that, our margin in Q2 is pretty much in line with the margin in Q1.

Bryan D. Spillane
Analyst, Bank of America Securities

Right. Okay.

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

And if you go back to the prior year, you would see an expansion of margin, if it were not for the dilutive impact of pricing to offset inflation.

Bryan D. Spillane
Analyst, Bank of America Securities

Okay. Thank you for that. And then, my question is just, in the prepared remarks, Miguel, you talked a little bit about I think there still being supply chain pressures in the back half of the year and – or currently, I suppose.

And if I – recalling last year, where part of what happened in the US was you had some supply chain issues and they affected service levels, especially around the holiday. I guess, does the guidance assume that there's still going to be some pressure there and that you won't be fully merchandised for the holidays? Or are you in a position where you can be more fully – sort of supply the merchandise at the holidays in the US?

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

Okay. Brian, I think that since your question is addressing more the US, I will pass it to Carlos.

Bryan D. Spillane
Analyst, Bank of America Securities

Okay. Thank you.

Carlos Abrams-Rivera
Executive Vice President and President, North America, The Kraft Heinz Co..

Thank you, Miguel. Yeah, few things, I think – first of all, thank you for the question. The reality is that we have continued to improve our production and our service levels, as you saw in our presentation. And now that we are approaching kind of the low 90s in terms of service in Q2, they're going to allow to continue to focus on driving the right kind of levels of both service and inventory with our retailers. So for us, it's important to see the continued progression that we have. And we don't anticipate that actually going against us as we go forward. In fact, what we're going to continue to see as we go into Q3 and Q4 is the continued expansion of our service. And as a result, the continued improvement in terms of our performance. We saw that in Q2, where in fact, we have been able to kind of unlock opportunities within, for example, brands like Philadelphia or Heinz Ketchup, both of which had record shares; in fact, highest share they ever had in both of those businesses. So I think as we go forward, we're only going to continue to improve our position.

Bryan D. Spillane
Analyst, Bank of America Securities

Okay. Thanks.

Operator: Thank you. And we'll take our next question from Ken Goldman from JPMorgan. Mr. Goldman, your line is open.

Ken Goldman
Analyst, JPMorgan Securities LLC

Hi, everybody. Thank you. You mentioned in the prepared remarks that you have the optionality, now to execute more, I think you called it, mutually strategic programs with retailers, now that your service levels are in a better place. I just wanted to clarify, number one, is there any major difference between a mutually strategic program and just a really good promotion that's more than just a discount? Maybe it's just something more in depth or creative than a usual promotion. I just wanted to kind of clarify that definition. And the second part of that is, I wanted to ask if you're confident that these programs, if you do implement them, that they're being driven from a position of strength, right? Whereby you're doing them because you're able to, versus maybe from a position where you're doing it because the consumer, in a position of weakness themselves, is demanding it? Thank you.

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

Okay. Ken, I'll give you two examples of these programs that – because we have now much better service levels we can have. So I'll give you two examples. One is what we call the Art of the Burger. It has been a very successful program, especially now during summertime when people barbecue more and when we can put together our sauces, our cheese, together with the buns of supermarket chains. It has been very good and very well accepted by our customers. I'll give you another example in a moment like this that we are exploring value propositions together with customers. I'll give you the example of grilled cheese. You can have a grilled cheese for less than $1. And we do programs with our customers, putting together our cheese, our mayo, and with their brand as well, right? So these are just two examples of bringing value, the value proposition. And the customers are receiving this extremely well. And this is bringing a little bit of creativity that we have never used, thinking about value or bringing the value of our products to life together with the customers.

Ken Goldman
Analyst, JPMorgan Securities LLC

And then the second part. Thank you for that. The second, doing this, I guess, from a position where you feel it's from strength rather than maybe because the consumer is demanding it a little bit, I just wanted to make sure about that. And maybe you answered that a little bit with the second part of that, talking about the value proposition promos. But just curious for your thoughts there.

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

The other thing I would say here, Ken, this is Andre speaking, is we continue to have very productive conversations with our customers in a way that makes sense for both parties.

Ken Goldman
Analyst, JPMorgan Securities LLC

Great. I'll leave it there.

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

Yeah, but sure it's from a position of strength. I will say, look, we feel very positive about it. We are excited with the momentum that we have with our customers and with our consumers.

Ken Goldman
Analyst, JPMorgan Securities LLC

Understood. Thanks very much.

Operator: Thank you. And we'll take our next question from Andrew Lazar from Barclays. And, Mr. Lazar, your line is open.

Andrew Lazar
Analyst, Barclays Capital, Inc.

Great. Thanks very much. In the slide deck, you provided a breakdown of categories that are sort of more and less sensitive to price gaps with private label. I think 15% of sales are in categories that are more sensitive where gaps are increasing. And I'm just curious, how do you approach these businesses in terms of balancing share and profitability? Do you take the necessary price to protect profit and deal with the short-term pressure on share? Or protect share and sort of take the short-term profit hit? And you talk about another 25% that are sensitive to private-label gaps but currently stable. And I guess if those were to expand from here, I guess what gives you confidence you can manage this bigger segment in the context of your sort of growth algorithm? Thanks so much.

Carlos Abrams-Rivera
Executive Vice President and President, North America, The Kraft Heinz Co.

Well, let me start it and I think, Andrew, the question is specifically to the US. So I'll take a shot. I think for us, the reality is that even as we think about those businesses, there may be, as you saw, a very small part of our portfolio that is more exposed to private label. One of the things that we're actually doing is working differently in terms of how we're offering consumer solutions in a moment in which they are looking for different choices across the spectrum of economic development of consumers. So one of the things we're actually looking at is how we actually allow consumers to stay in our iconic brands, and because of the number of ranges of our products across our pricing ladder, whether that is – and let me give you an example. Something like Oscar Mayer, in which we have from natural to deli fresh to regional Oscar Mayer, that allows consumers actually for – to have an option in which to actually stay within our brands, knowing that over the last couple years, we've actually been renovating many of our iconic brands and investing behind it. So we have improved the quality. We have improved the renovation of those brands in a way now that makes the brands even more valuable to consumers. And frankly, we're seeing that already play out. We see that, for example, you have a product like in our Kraft cheese portfolio, in which we also have that kind of full array of product across pricing ladder that in Q2, you saw us gaining share as well. So for us, it's about being strategic about how we think about leverage the entire portfolio that we have in a way that allows us to continue to offer consumers different approaches in terms of options.

Andre Maciel

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

And it's really category by category, see, right? So even in the 15% where the prices are expanding, the stories are very different.

Like in sandwich cheese, similar to cold cuts, we do have a very good price ladder. We have the Velveeta Slices at the floor, in fact even priced at or below private label. We have the Kraft Singles and we have the Deluxe. And we're actually gaining share, so in the last several months, so it's working quite well for us. In Ore-Ida, for example, we have the partnership with Simplot that is now starting. And that will unlock a lot of capacity later in the year, which will allow us to start to promote more this brand, which we haven't been able to do in a consistent manner for years. So it's really category by category. We monitor this very close and makes sense that – we are doing something that makes sense for both top and bottom line.

Andrew Lazar

Analyst, Barclays Capital, Inc.

Thank you.

Operator: Thank you. And our next question will come from Chris Growe from Stifel. And your line is now open. Mr. Growe, please make sure your line is not on mute.

Christopher R. Growe
Analyst, Stifel, Nicolaus & Co., Inc.

Can you hear me now?

Operator: Yes, sir.

Christopher R. Growe
Analyst, Stifel, Nicolaus & Co., Inc.

Thank you. I just had a quick question for you if I could around the revenue growth in the quarter outpacing consumption. I was just curious how much of that was foodservice strength, for example, and maybe the non-measured channels versus actual inventory rebuilding. And I think this kind of fits with an earlier question around, do you see product availability as a constraint for the third and fourth quarter performance in the second half? Or is that behind us now, is what I'm ultimately trying to get to. Thank you.

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

I think it's a combination of the sectors. So foodservice, as you have seen in our presentation, is growing north of 20%. So – and that represents roughly 13% of our total revenue.

In all measured channels in the US, we have been doing very well in Club and Dollar, actually been gaining share year to date in those two channels, because we were already prepared for a gradual shift toward those channels. And inventory was more pronounced in Q1, in fact, in Q2 it was very minor. So I think it's more attributed to the first two. Regarding service levels, as you have seen, we are still in the low 90s, where the ideal level is in the high 90s. So we still have work to do. Obviously, it's just the average of the portfolio. Some categories are in great shape, back to the historical appropriate levels of services; some others still working through it. And even if you look along shelf availability, we are much closer to the historical levels. So – if you think about shelf availability peak, there's going to be in the industry like 93, 94. We are now in the 91, 92. So we're getting there. There's still some room to grow.

Christopher R. Growe
Analyst, Stifel, Nicolaus & Co., Inc.

And would there still be some continued inventory build you'd expect at retail as you improve your service levels?

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

We might. Obviously, we cannot comment on how – we don't know how retailers are going to measure their inventories moving forward. If you were to look back at historical levels, yes, there could be some room for further inventory buildup.

Christopher R. Growe
Analyst, Stifel, Nicolaus & Co., Inc.

Okay. Thank you.

Operator: Thank you. And our next question will come from Steve Powers from Deutsche Bank. Mr. Powers, your line is now open.

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Yes. Hey, good morning. Good morning. Thanks. You talk about your outlook contemplating greater price elasticity negatively impacting volume and mix, I guess, over the balance of the year. Is there a way for you to help us think through the P&L impacts of lower volumes at this point? Clearly, there are many other moving parts. But all else equal, if volumes are to move lower in places where you anticipate, how material is that on margins in terms of fixed cost deleverage per unit sold? I'm just – I'm really asking just how fixed versus variable the cost structure is at this point.

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

Thanks for the question. At this point, it's not really a drag, because we are still building inventory. Remember our service level's in the low 90s. So as we continue to produce more than what we sell, it actually is a little positive effect at this moment. And we are monitoring the demand curves very closely. So then, we also adjust our labor accordingly to make sure that we don't have an overhang down the road when we start to step down on production to make sure we don't have more labor than needed and have this effect that you're talking about. But as of right now, this is not an issue.

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Okay. Great. Thank you. And if I could, you gave some good color on the cost outlook for the remainder of 2022. I guess I'm just curious how you see, if possible, early positioning looking out to 2023? On the one hand, you mentioned costs hopefully peaking and maybe starting to recede in some cases. But on the other hand, we're still obviously a lot higher year over year. And you presumably have some hedges rolling into the new year that will roll off, both on commodities and currency. So just maybe a little bit of color, if you have any, on early positioning, visibility on cost and currency looking out to the first part of 2023.

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

It's too early to tell, there is still a lot of volatility out there. Yes, the costs have receded. But they are still very high. We are working with different scenarios for next year, but it's too early to talk about that.

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Okay.

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

Because, look, even as we have been taking price throughout the year, that will obviously have a carryover effect into next year, especially in the first half of the year. So that should help, but early to tell.

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Okay. Very good. Thank you.

Operator: Thank you. Our next question will come from Robert Moskow from Credit Suisse. Your line is now open.

Robert Moskow
Analyst, Credit Suisse Securities (USA) LLC

Hi. Thanks. Your income statement shows losses on your derivative hedges in 2Q. I imagine that commodity inputs are now falling. And if that's right, should we assume at some point that this necessitates more counts in your pricing on any specific products? And then, a quick follow-up.

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

Yeah. So thanks for the question. So couple of things. First, maybe to answer the prior question as it relates a little bit to this one.

We typically price on what – on market changes, not on our hedged position, right? So it's important to know that. Hope that this is clear. We price based on what we're seeing out in the market, not based on what our internal pricing hedges are. But the second thing is regarding this effect, what you see in the P&L is the change in the unrealized hedge on commodities, okay? So doesn't mean that the hedge is positive or negative, it just mean that there was a change period over period. So we're still having hedge gains. We had hedge gains in both Q1 and Q2. But because part of that materialized, we see this negative effect on the realized portion. But again, the important thing is we look at the market prices, and that's how we make our price decisions.

Robert Moskow
Analyst, Credit Suisse Securities (USA) LLC

Okay. Maybe I'll follow up. My follow-up is, I think you did ship above retail consumption in 2Q. And I think you said that you'd be refilling shelves in 2Q. Can you give us any number as to how much that might've been, just in 2Q?

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

The inventory effect in Q2 is very small. So, yeah, the Q2 is a very small number. And again, we can -- we don't know how retailers are going to manage their inventories. If you were to look at the levels pre-pandemic, net-net, we still have room to grow more inventory to retailers. And our shelf availability, as I said before, it is still a little below the historical level, which might give further indication that this is a possibility.

Robert Moskow
Analyst, Credit Suisse Securities (USA) LLC

Yeah. Andre, I get it. But you also said you're producing above your sales.

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

Yes.

Robert Moskow
Analyst, Credit Suisse Securities (USA) LLC

So I don't know, is it a material amount? Or are you just – it is. And you're – are you refilling your own inventory then, rather than retailers? Or…

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

Yes. We are now refilling our own inventory.

Robert Moskow
Analyst, Credit Suisse Securities (USA) LLC

Got it.

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

Because many categories are still below the historical levels. And eventually, this will flow to the retailers. I don't know, Carlos, do you want to add something else?

Carlos Abrams-Rivera
Executive Vice President and President, North America, The Kraft Heinz Co.

Yeah. I mean I would say, if you look at the presentation and the fact that we're able to provide service from the low 80s to the low 90s, it's a result of us being able to actually leverage our entire supply chain in a way that, now with right inventory levels in many of our categories, that we can provide that service. At the same time, as Andre said, we're still in low 90s. So there is opportunity for us to continue to drive that to the high 90s by pushing the right level of inventories internally, so that we can actually be able to better service our customers.

Robert Moskow
Analyst, Credit Suisse Securities (USA) LLC

Thank you for the clarification.

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

Thank you for the question.

Operator: Thank you. And we'll take our next question from Alexia Howard from Alliance Bernstein. Alexia Howard, your line is open.

Alexia Howard
Analyst, Sanford C. Bernstein & Co. LLC

Good morning, everyone. Thank you. Good morning, everyone.

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

Good morning, Alexia.

Alexia Howard
Analyst, Sanford C. Bernstein & Co. LLC

Can I ask about the comments you made in your prepared remarks about the international zone and the expansion of the distribution points? It seems as though in the go-to-market areas, there's been a very material expansion of distribution points in some of those emerging markets. How do you ensure that you've got the critical mass in those new outlets to make money? I don't know whether you can give us data on how profitable you are in some of those regions. But we've seen some other companies kind of dig themselves a profit hole, as they've tried to do that expansion. And I just want to find out how you're making sure that you've got guardrails on that expansion. Thank you very much, and I'll pass it on.

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

Rafael, throw it to you.

Rafael Oliveira
Executive Vice President and President, International Markets, The Kraft Heinz Co

Yes. Yes. No, Alexia, thanks for the question. I mean to be honest with you, we are extremely proud and happy with what's happening with our go-to-market model, because it's a very comprehensive model that we actually start by analyzing. It starts by where we can make money. So it starts by looking at the gross profit of each individual, either channel or submarket, let's say, traditional, modern trade, I mean depending on the region in multiple countries like you – as you can imagine. If you – pick like Brazil where we started, Russia, China. They are very vast countries, so they have the profitability that you can achieve in different regions and different channels is significant, can be significantly different. So we start by analyzing that. Flowing through all the way to how we're going to execute in store. So it's a very comprehensive model of very detailed analytics with execution. So as you saw and you alluded to on the slides, we started this model in 2018 in Brazil. Copy – adapted and copied to Russia, then to China. And now we are scaling up to – by the end of the year, we expect to have 75% of our markets into this go-to-market model. And the numbers – the result speaks for itself. So everywhere that we implemented the model, the growth has been significantly above the other emerging markets that are also growing. So we will continue to roll that out. It's a model that, again, requires a lot of analytics in order to be profitable. But at the same time, a lot of discipline on execution to kind of keep expanding in those regions and still have a lot of distribution to be gained.

Alexia Howard
Analyst, Sanford C. Bernstein & Co. LLC

Great. Thank you very much.

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

On the profitability side, which is obviously very important, right, we want to make sure that we don't put a lot of people out there, and we cannot have a payback on that. We're also very disciplined on it. Right? So to give an example, in Brazil, we have about, I don't know, 1 million points of sale that we could hypothetically serve. We are still in the 130,000, 140,000, so – and part of that is because the limits of our scale, right? So that's very important.

We are exploring alternatives, potential partnerships, to try to increase the penetration in some markets. So maybe there will be more to come in the future. But yes, profitability is also an important consideration.

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

Since we are talking about Brazil, I think that, now, with the acquisition of Hemmer that is very strong in the south and Heinz is very strong in the Southeast, this gives us even a bigger opportunity to expand our distribution and the strength of our brands. We are really now with great scale in Brazil that we are very happy with how this acquisition is going and the plans that we have in place for the business there.

Alexia Howard
Analyst, Sanford C. Bernstein & Co. LLC

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

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

Operator, we have time for one more question.

Operator: Thank you. And we'll take our last question from David Palmer with Evercore ISI. Your line is open.

David Palmer
Analyst, Evercore ISI

Thanks. In your prepared remarks about gross margins, you talked about the fact that you're protecting profit dollars and not margin. And that that was causing 450 basis points of decline, and that math makes sense. But I'm sure there's more going on underneath the surface with regard to gross margins. Supply chain, I'm sure, was a friction cost. And maybe there's some timing with regard to pricing versus input. So anything that you would call out that was also a factor in gross margins that we can be thinking about even into 2023 as a comparison?

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

Yeah. Thanks for the question. Look, this is by very far the highest impact. But other than this you have the gross efficiencies, remember that you have the $2 billion plan that we have communicated and that we are on track to deliver. We delivered the first two years in line with expectation. And year three, which is now, we continue to be on track. So that certainly continues. Mix, its effect is relatively small. It's small in the quarter, slightly positive, as we continue to accelerate the growth platforms where we have higher margin. But the number in the quarter is not significant. So really, in this quarter, it's about the dilutive effect. But again, moving forward, we should expect to continue to deliver the gross efficiencies. And as we continue to price at inflation, as the inflation eventually starts to ease, that might put us in a better position for us to continue to recover the margin.

David Palmer
Analyst, Evercore ISI

Thanks for that. And then, on foodservice, the – very impressive growth there. The over 20% growth in North America does imply something's happening there, some big market share wins. What's driving that? And is that sustainable? And I guess you're just citing that the big global QSRs as the momentum driver for international? And that does sound sustainable in your view?

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

Thanks for the question. I think there are two things. One thing I want to highlight that was not in the prepared remarks is that our foodservice now in Q2 is 14% higher than Q2 in 2019, which is really remarkable. We – there is a component of price, right? We've been pricing that channel consistent to what we've been doing in retail. So price also has a lot to do with the growth that you are seeing in Q2. But the volume continues to grow as we expand distribution. We've been gaining market share in the – where we have the product – the information in developing markets in North America, Europe, et cetera. Regarding QSR strategies, I'll have Rafa talk a little bit to what we are doing on the international zone.

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

Before Rafa talks about international zone, just want to say that since you, Andre, compared with 2019, in 2019, foodservice was a very transactional area for the company. Was not really strategic. And was a small part of the company that we didn't put a lot of attention. I think we have a great team today with a lot of ambition and are really looking at this channel as a critical strategic channel that generates penetration of our brands across the globe. If we are having great momentum in emerging markets, in part is because our consumers are getting in touch with our brands in foodservice. And so that's a very different change in mindset. And as a consequence, the team changed, yeah, I think entirely since 2019. Rafael, please?

Rafael Oliveira
Executive Vice President and President, International Markets, The Kraft Heinz Co

Yeah. The only thing I would complement, I mean to build on what Miguel said, we have a say here. We use the model we define for foodservice. We call – we own the chef, own the kitchen, own the customer. And that reflects the investments we made on chefs. Because chefs are extremely important, especially on QSR, global QSRs, as you alluded, because that's how you develop recipes or LTO, Limited-Time Offers, with those customers. And this is the door into developing – into innovating products for them to put in their stores. So we've invested on this capability, and this is paying off big time, because then you develop a relationship with those customers. That takes you to a different level, that allows you to innovate, to price better, to get out of a commodity competition. And with that, we continue to use the channel as well to build the brand, I mean in terms of impressions of domestic channel to brand impressions. So foodservice is a core pillar for our growth, both across international but in the U.S. as well. And Carlos can complement that. But we've been very successful with this model of investing on chefs and partnering with the customers on product development.

Carlos Abrams-Rivera
Executive Vice President and President, North America, The Kraft Heinz Co.

Yeah. I would say, Rafa, the only thing I would add here is just the fact that the model that we have, we're also looking at it at the global basis. So the same concept of us being able to kind of – as Miguel and Rafa pointed out, leveraging our points of distribution in away from home in order for us to kind of build our iconic brands in retail. That type of virtuous cycle is something we're going to continue. And we see that paying off for us. At the same time, over the last couple years, not only have we reorganized ourselves and focused our team in being – having kind of the right expertise and capabilities with foodservice, but we have also simplified our portfolio quite a bit. I can tell you that since the last two years, we have reduced the number of SKUs in the US foodservice by half. So that allows us to actually pivot to the things that really matter to our customers in a way that they can help with both in terms of providing the great service and great value in away from home. And with that, let me pass it over to Miguel for some closing remarks.

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

Okay. Well, thank you all for your questions today. As you are seeing, we are a company in the midst of a transformation. We are proud of what we've done so far, very proud. But each day, we continue to improve and to evolve. And we are just getting started. We have so many opportunities ahead of us. And we are all very excited about what's to come. Thank you very much. And thank you for the continued interest in Kraft Heinz.

Operator: Thank you. This concludes today's conference call. Thank you for your participation, and you may now disconnect. Everyone, have a wonderful day