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 & Chairman, The Kraft Heinz Co.

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

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

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

OTHER PARTICIPANTS

Andrew Lazar
Analyst, Barclays Capital, Inc.

Bryan D. Spillane
Analyst, Bank of America Securities

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

Cody Ross
Analyst, UBS Securities LLC

Ken Goldman
Analyst, JPMorgan Securities LLC

Pamela Kaufman
Analyst, Morgan Stanley & Co. LLC

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

David Palmer
Analyst, Evercore ISI

Michael S. Lavery
Analyst, Piper Sandler & Co

QUESTION AND ANSWER SESSION

Operator: Good day and thank you for standing by. Welcome to The Kraft Heinz Company fourth quarter results conference call. 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 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 fourth 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 investments, and related timing and expected impacts. These and 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.

Miguel Patricio

Chief Executive Officer & Chairman, The Kraft Heinz Co.

Thank you, Anne-Marie, and thank you, everyone, for joining us today. Let me first take a moment to say how proud I am of the Kraft Heinz team. We have come so far on our transformation journey. It's quite amazing, and the fourth quarter was no exception. You can see the momentum building across our business. Service levels and market share trends are improving. Base volumes are positive. We are outpacing the competition in Foodservice and Emerging Markets, and by a lot. And importantly, we continue to invest for growth.

Once again, we have unlocked efficiencies over $400 million dollars this year, and this allows us to invest in new tools and capabilities for our teams, and new product innovation for our consumers.

From a pricing perspective, 99% of all needed pricing has already been announced for 2023. As we look to the rest of the year, we have no current plan to announce new pricing in North America, Europe, Latin America, and most of Asia. I am very optimistic and very excited about how we are positioned to deliver long-term, sustainable growth.

With that, I have Andre, Carlos and Rafa to join me. So, let's open the call for the Q&A.

Operator: Thank you. We'll pause for a moment while we compile our Q&A roster. Our first question comes from Andrew Lazar with Barclays. Your line is open.

Andrew Lazar
Analyst, Barclays Capital, Inc.

Your EBITDA guidance for fiscal 2023 excluding the impact from the 53rd week is actually in line with your long-term algorithm. And when you detailed this, I guess, at CAGNY a year ago, you sort of I think said it would take multiple years to reach this level of growth. So, I guess in this regard, I'm trying to get a sense of whether – if I have this right, whether you're ahead of schedule and if so, what you attribute it to. Like what's gotten better or faster maybe than you anticipated. And I guess most importantly, are you in a place where you see this level of growth now as more sustainable? Thank you.

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

Hi, Andrew, good morning again, and thanks for the question. And thanks a lot for noticing it. In fact, we feel very proud about what we have been achieving as a company and I think 2023 will mark another step up in our performance. And as well noticed, we are on the long-term algorithm already on net sales and also on EBITDA if you remove the effects from currency and from the 53rd week. And I think this is the best way to show that our transformation is working through results. Right? And it's good to see how we finished 2022 with very strong momentum and how that's translating into stronger performance in 2023. This is a consequence of our market share in the US continuing to improve; still negative but improving. Foodservice continues to deliver at high, above 20%, Emerging Markets growing double digits and a strong rate, so all the three pillars of growth are working in our favor.

Supply chain efficiencies continue to happen and in 2023, as you might have noticed in guidance, we are expanding gross margin and got back to 2019 levels, which is allowing us to continue to increase the investment in the business for growth. So, in 2023 we are increasing investments behind marketing, technology, and people which are critical enablers for us to fuel the growth of the company. So, we feel good about where we are moving. Still much to do but feel good.

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. My question's about just the free cash flow. And I have a couple questions related to that. I guess the first is just simply, Andre, can you give us a little bit more insight in terms of I guess the inventory build? Is it finished goods inventory? Is it raw materials? The decision to do that, and I guess in the prepared remarks it's tied to service level. So are you going to need to carry elevated inventories through 2023 is my first question.

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

Andre, please.

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

Sure. Good morning, and thanks for the question. Look as we said, as you have seen throughout 2022, we have to rebuild inventory. Our case fill rate at the end of 2021 was in the low 80s which is extremely low. So we had a lot of recovery to do. So you have seen throughout the year, the effect of us building inventory. Keep in mind that we finished 2022 it's still in the low 90s. So it's still not what retailers are expecting it should be and what we expect ourselves should be.

Being said that, we do have, compared to historical levels, higher inventory coverage on average in raw and package materials, also which is normal because we're trying to build the buffers given all the volatility and uncertainty. So we expect that those raw and package materials should decline over time, starting in 2023. And in finished goods, even though we need to increase inventory in certain spots where the service levels are still low, we still have a lot of opportunity to rebalance our inventory across the network. I think one of the consequences of the pandemic and the demand volatility is that we start to have inventory stranded in the wrong warehouses to meet the demand. And that takes time to sort itself out, right, because it'd be too costly for us to be shipping items across the network.

So because of these effects and all the investments that we have made in the past two years to automate demand forecasting, we are investing a lot of resources in better supply trending. We have a big project that's already started for network simplification. So the combination of these investments, plus the rebalance of the network, plus going back to the more historical levels of raw and packaging materials, we should start to see recovery in inventory starting 2023 but more into the future.

Bryan D. Spillane
Analyst, Bank of America Securities

So I guess that we're kind of bridging that now to maybe how we should be thinking about free cash flow and free cash flow conversion for 2023. Can you give us a little bit of perspective on, I guess, capital spending? Will inventory or working capital be a tailwind? Like can we get back to more normal free cash flow conversion in 2023? Or is it still going to be somewhat, I guess, subdued relative to previous years?

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

So free cash flow will be better than 2022. We are still not going to be on the long-term algorithm of 100%, and that's in great part because of CapEx investments. As we have said as well when we unveiled the long-term algorithm, we are investing for growth. And we have stepped up investment in CapEx. You have seen 2022, we're spending a little more than $900 million, which is a big increase versus $700 million-$750 million in the past. We are ramping up this again in 2023 and 2024 as part of our long-term plan. And then we should go back down to closer to 3.5% of net sales starting 2025. That's the current perspective.

So when the CapEx starts to come down, that will help us to give the step-up change to go back to achieve the 100% as we said in long-term outlook.

Bryan D. Spillane
Analyst, Bank of America Securities

Okay.

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

So this year, I mean, if you want to expect something this year, it should be like about 80% or so, keeping a ballpark in mind.

Bryan D. Spillane
Analyst, Bank of America Securities

Okay. That's helpful. Thank you very much. Appreciate all the color.

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

Thank you.

Operator: 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 question for you in relation to promotional spending. And you had some data and some charts or a chart that showed how it was down since 2019 and down more than your branded competition. I just want to get a sense of do you expect to increase that? Is that kind of tied to service levels as those improve throughout the year? And then also to better understand, what's the appropriate bogey for that level of rebuilding promotional spending? So what portion of that 5% decline you show in 2019 should rebuild? You've got some good data and capabilities now. Can you be more efficient with promotional spending? I think the answer is yes, but I just want to get a little more color on that. Thank you.

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

Maybe, Andre, you can start and then Carlos comment specifically on US.

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

Sure. Yeah. So – and thanks for the question. We have increased trade investment in a very significant way from 2017 to 2019, more than $1 billion in the United States alone. So, we start from a very high base. And this – late 2019, we created a centralized revenue management organization. We have more than 50 people fully dedicated to that in North America alone and we have started to empower our sales organization.

We put a lot of discipline and science behind making promotional decisions in a way that benefits us and retailers. And you have seen a lot of that coming to fruition now as a result of the last three years. There is obviously an impact from service level as well. But just to put in perspective, if you look at Q4 at volume sold on promotion, we had about 24% of volume sold on promotion in Q4 2022. That's higher than 2021, but still lower than the branded competitors in our categories. But in 2019, it was 34%. So, that's too much.

And if you look at where we are right now in terms of promotional investments, we still have a significant amount of promotions that have negative ROIs. So, it's not about cutting promotions; it's about deploying in a smarter way. So, we have seen the results from that, but there's still a lot of opportunities for us to go ahead. It's difficult for me to give you a precise number of where this is going to land, but what I can tell you with confidence is that we're not going to get anywhere close to 2019 levels.

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

Yeah, let me – it's Carlos here, Chris. Listen, what I would say is just building on some of the comments that Andre just mentioned is that as we think about promotional activity going forward, it really is about being surgical about how we invest those promotion dollars, thinking through making them around event-based activity. So that way, we are thinking through how do we make sure that we are driving the best utilization of that particular event versus a price-based activity.

And I think what happens then is it allows us to actually make sure we are focused in terms of driving the positive ROIs. And I think if you – as you heard from Andre, we have made a huge drive from where we were in 2019, and we're not going back. In fact, when you look at some of our focus on improving the ROI of our programs, today, on average, if you think of 2022 versus 2019, we've actually tripled the level of ROI returns of our promotions from three years ago.

So, again, it is a signal that all the investments we're doing in terms of revenue management and agile at scale work in terms of better understanding how to read the data and how to utilize our funding to actually driving specifically better ROI in every funding that we're doing. Thanks for the question.

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

Thank you. Lot of good color there. I appreciate it.

Operator: One moment for our next question. Our next question comes from Cody Ross with UBS. Your line is open.

Cody Ross
Analyst, UBS Securities LLC

Thank you, operator, and good morning. Just a quick question around your organic...

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

Good morning.

Cody Ross
Analyst, UBS Securities LLC

Good morning. Just a quick question around your organic sales guidance. You guided 2023 organic sales growth of 4% to 6%. Based on wraparound pricing from 2022 and the incremental price that you discussed for 2023, we estimate that your volume growth assumption is flat to down low-single digits. Is that correct? And then, if so, what gives you the confidence that elasticity will remain so low as we move throughout the year? Thank you.

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

Andre?

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

Yeah. Hi, Cody. Thanks for the question. So, as well noted, we are finishing Q4 growing about 10%. And we have a new round of price that we just implemented. So that certainly has a positive effect, especially in the first half of the year. We expect to be, gradually, throughout the year for us to be – as we start to lap the price increases from last year that we end up landing in the second half on something closer to our long-term growth algorithm, okay?

Being said that, the growth in 2023 is all driven by price. So, volume is still negative. Obviously, it improves throughout the quarters as we start to lap the pricing. But even at the end of the year, we'll still be negative. That's something that as we think about the future, it's not the balance that we want. We want a good balance as we think about top line growth between price and volume. And we're going to talk a lot about that the next week in CAGNY. We have contemplated the guidance an increased level of elasticity compared to what we saw in 2022, but it's still not up to the historical levels.

In terms of what gives confidence, so you saw the sellout for the industry throughout Q4. It was still very strong. In fact, if you look at sellout elasticity,looking at price and volume based on the sellout, Q4 was better than any other quarter in the year. Now, we obviously need to – we need to keep actively monitoring and we are because throughout this year, we can see maybe consumers will change their behavior. Carlos, do you want to comment something on that?

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

The one thing I would add there, Cody, is the fact that we also are making sure that we continue to expand in terms of the number of formats and price points that we offer within our categories to make sure we maintain the consumers that have been with us over the last couple years. So that means that, if you look at the data, for example, in Q4, those earning over $100,000 in consumers, actually with that particular group, we actually grew over 13% in terms of consumption. And at the same time, we're making sure that as consumers are going to club, we are actually increasing the number of offerings, whether it's Mac & Cheese and Jello in terms of club, and those consumers that are going to dollar stores we're actually improving the number of SKUs that we have available to them. So that way, there's a point in which they can come into the category and those who are choosing to look at value in terms of club sizes, we also have those formats. So it is for us to be agile in terms of how we think about the consumer continuing to change, and having an offer that provides the best value for them regardless of their socioeconomic situation.

Cody Ross
Analyst, UBS Securities LLC

Great. Thank you.

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

Thanks so much for the question, Cody.

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. Just hoping to get a better sense of the magnitude of the gross margin improvement you're expecting this year. And besides the obvious ones in terms of the cadence of inflation, if there's any considerations we should have about maybe the timing from quarter to quarter of that improvement.

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

Andre, please?

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

Right, Ken. Good morning. Thanks for the question. You have seen that in Q4 it happened the way that we said, a sequential improvement, which put Q4 in line with the 2019 gross margins. We expect in Q1 for gross margin to go a little bit down as we have contracts that are getting renewed and some inflation that was not passed over to us last year now is going to affect us. And we've had to contemplate it in our guidance. But you should expect somewhere close to flattish in Q1 compared to prior year and from there we should start to see expansion on a year-over-year basis.

In terms of a ballpark, you should think about 50 bps to 100 bps magnitude of gross margin expansion, which that is what's allowing us to increase investments behind marketing, technology and people, which are so important to us.

Ken Goldman
Analyst, JPMorgan Securities LLC

Very helpful. Thank you.

Operator: One moment for our next question. Our next question comes from Pamela Kaufman of Morgan Stanley. Your line is open.

Pamela Kaufman
Analyst, Morgan Stanley & Co. LLC
Hi. Good morning.

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

Good morning.

Pamela Kaufman
Analyst, Morgan Stanley & Co. LLC

Can you talk about the competitive dynamics within your categories? In the prepared remarks, you indicated that private label share is increasing, but that it's primarily coming from your branded competitors. So maybe if you could just elaborate on what you're seeing there, that would be helpful.

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

Maybe Andre and Carlos can comment on that.

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

Sure. Let me start. Thank you for the question, by the way. As you saw, and let me speak for the North American business first, and then maybe Andre can give you a perspective on the overall company. We do see the continued share improvements as we continue to go forward. I mean, in Q4, you saw that mix-adjusted share actually improved by 20 basis points. And when you look at the market share that is non-mixadjusted in December, it actually was flat. And what we're seeing is that the bet that we're making in terms of continuing to invest in our businesses in terms of renovating our key products, making sure we invest in innovation, make sure we invest in our marketing. That actually is paying off.

So when you see that in terms of those particular platforms and brands that we want to continue to drive our growth are, in fact, driving the share improvements as well, whether that is in places like *Lunchables*, in places like *Kraft* Cheese, in places like *Heinz* Ketchup, *Kraft* Mac & Cheese, all those kind of drove positive share as you look at Q4. So for us its how do we continue to make sure we build on those. At the same time, that we are also making sure we address any of the potential – still some supply chain constraints that we have in a couple of categories.

So for us, it's making sure that as we are driving the investments that we're making in the brands, that those are, in fact, are already transferring into share improvements and now making sure that we are continuing to support the brands that are still a little bit challenged in terms of supply chain so that we can, in fact, unleash the continued growth of our retail environment.

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

Rafa, do you want – is there anything you would like to add from an international standpoint on this question?

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

Well, Miguel, the only thing is that we have to look at a bit of different regions, right? Because I mean in Europe, indeed, the situation is a bit tougher from a private label perspective, growing more. I mean, the price gap has been widening although private label has been pricing the same, but the gap has been widened. I mean, we have put a lot of initiatives in place like re-launching value brands like HP Beans, for example. And then also do a lot of activities in price pack architecture. So this is like – it's really keeping us strong, especially versus branded competition. But then in the rest of the world in emerging markets specifically, we don't see that much of a private label issue and we continue to gain share.

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

Okay. Yeah. Just to put it in perspective, retail in Europe is about 5% of our business, and that's what Rafael was talking about. I just want to add to these points that two-thirds of our growth are coming from Emerging Markets and from Foodservice. And on these two channels, we continue gaining share and growing in a very, very positive way, double-digit.

Pamela Kaufman
Analyst, Morgan Stanley & Co. LLC

Great. Thank you.

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. Two questions. The first one is on service levels and fill rates. On slide 16, you show how you've seen improvement in the fourth quarter, really every month within the fourth quarter. I guess question is, number one on this is just has that improvement continued into 2023 thus far? And what have you really assumed sort of as the base case for 2023 relative to the ultimate goal of getting back to the high 90s. Is that an assumption in the guidance, or is that more of an aspiration and you left some allowances in the outlook?

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

Steve, it's Carlos. Let me comment. So, to give you a perspective, I guess the way we see it kind of in North America, as you said, we are, in fact, seeing progress in our supply chain and our service level. In fact, when I look at December numbers, those were the highest service levels we had across the whole entire year. Now, at the same time, we are still seeing the industry having continue to see some challenges, particularly upstream when you think about ingredients and some packaging materials.

Now, as we go forward, our goal is, in fact, to get to the kind of service levels that our customers and we need towards the end of the year. I think for us, what we're seeing is that the recovery in some of the ingredients and packages is coming in very asymmetrical. So, if you think about for us, we're still dealing with remnants of the avian flu and the impact that that had in terms of the industry in some of our business in cold cuts and in places like in our cream cheese soft business where some packaging materials have been a challenge.

So those are the type of things that now we're working through. It's places where, in fact, while most things are beginning to come in the terms of more stable supply chain, there are still a couple of places where we are seeing some of those kind of challenges.

At the same time, our team is making sure that we are adapting to every situation that's happening. I'll give you an example of that, which is, as you saw, the price of eggs got so high. We had to make sure that we also are adapting then products that go with eggs. So, a product like Just Crack an Egg, we need to make sure we actually brought down the inventories to make sure that – understand that consumers may not be – will be having a reduced demand for that type of product.

So, we're both focused on how do we make sure we continue to drive the service levels towards the 98%, which is our goal. And then, secondly is making sure that as we do that, we are agile in terms of responding to those specifica ingredients that may be challenged in the short term, but that we see improving significantly as we exit 2023.

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Okay, great. If I could follow up also – oh, sorry.

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

Go ahead.

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

I was just going to ask if I could follow up on the elasticity point that you've been talking about. You also exited the year with elasticities sort of at their most favorable point, just kind of going off the data on slide 9. You've obviously talked about assumption of those elasticities sort of normalize directionally through 2023. I guess the question is just, what's your base case assumption of the pacing of that normalization? And you talk about an ultimate assumption of not going all the way back to historical elasticity. So just, how do we think about that? Do you expect 2023 to be sort of the mirror image of 2022 from an elasticity standpoint? Or any more color you can offer around that would be great. Thank you.

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

Andre, please.

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

Yes. So, look, as we have said, right, we contemplated in the guidance that elasticities gradually go back to the historical levels, and we expect historical levels in the guidance to be established toward the end of the year. And we expect Q1 to be – the way that they're contemplated now, to be a little worse than it was in Q4. And again, it goes – if you want to think about that linearly going back to historical levels towards the end of the year. There are, obviously, things that we keep a close eye on, like we are obviously fully aware and have put the actions in place on the SNAP reduction in the subsidies, which is happening. When that has implications, then we are ready for that. So, I mean, we're monitoring each of those things, right? But we believe that elasticities will normally graduate back to their historical levels.

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

Carlos, do you want to say anything about the type of actions that you're taking?

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

Yeah, I think for us, as Andre said, we have seen this coming. So, for us, it's making sure that we continue to provide great value to consumers regardless of the situation they're in. And I think as I mentioned earlier, for us, it is making sure we use kind of the full price pack architecture in terms of options for consumers, so then make sure that we also maintain them in the franchise. And when we talk about in terms of our promotion levels, we're using a much more rigorous way in which we can understand the ROIs of investments. So as consumers are looking for particular events, whether it's certain key holidays and so forth, we are present, but in a way that actually allows us to be in a much more positive ROI than in the past. So, it is part of what we see. And like Andre said, in North America, we have seen – our stance right now is by the end of the year, we'll go back to historical elasticity levels. And that's the way we are building our guidance as we think about 2023.

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Okay. Perfect. Appreciate it. Thank you.

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

Operator, we'll take one more question.

Operator: Sure. One moment for our next question. Our next question comes from Michael Lavery of Piper Stanley. Your line is open.

Michael S. Lavery
Analyst, Piper Sandler & Co.

Thank you. Good morning. I just wanted to drill into your Foodservice growth pillar a little bit more. In is it slide 13, or 12, I guess it is, is interesting with some color here. Can you just unpack a little bit of how you're gaining share relative to competitors? Is it new items in existing customers? Is it broadening your distribution into new accounts? And is it those customers gaining share? I'm sure there's some components of maybe a few different things. But what's the primary driver of outperformance there?

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

Michael, we are having a great momentum in Foodservice across the globe, both on US or North America and the International zone. So I will ask Carlos and then Rafael to comment.

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

Yeah. And I will say in North America, I will say, is in the items that you mentioned, it's all of them. So we grew; in the Q4, we grew about almost – more than 20%, and we actually gained share. And for me, the way I kind of look at it is the investments that we have put in place are paying off. So we have put new leadership in place. We have simplified our portfolio significantly, reducing almost 50% the number of SKUs that we had only a couple years ago. We have renovated our Foodservice portfolio. We're bolstering kind of our sales team to make sure they drive distribution in the right places. And more importantly, we're also investing in capacity to make sure we support that growing demand.

So as we look forward, and just to give you a sense of the opportunity here is, we still are only in 25 of top 50 QSR in the US. So we know that everything that we're doing continues to be an opportunity for us to further drive growth. And then going back specifically to your question is already what we have seen is that we are in fact expanding distribution across all areas of Foodservice. We are winning with distributors. So we're actually expanding with key distributors our presence. We're actually also expanding with non-commercial accounts.

So if you think about hospitalities and particular distributors who service those kind of non-commercial businesses, we have also made an effort against those, and those are working. We have expanded in new restaurants and fast casual. Think about Denny's, a type of restaurant that we actually have now increased the number of items we sell into them. And QSR, which continues to be a focus for us as a company. From Papa Johns to Pollo Tropical, are places in which we are actually now expanding the number of SKUs we sell into. So it's an area that we continue to be bullish on, and why its one of the places that we feel that we can be winning globally. And with that, Rafa, if you want to build on the...

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

Let me just, before Rafa, just build on one thing Carlos mentioned. One of the reasons of our improvement and growth as well is capacity. We've been investing throughout these years on capacity in Foodservice, and we continue to do so. So now in May, we will have an extra 25% capacity in US on pouches and we'll have 50% more capacity on Dip and Squeeze, which are absolutely critical items for the growth of Foodservice. With that in mind, Rafael, please go ahead.

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

Sure. Look, a lot has been already said about our bright spot of Foodservice. And I guess, you'll see next week at CAGNY, we're going to go deeper on the reasons for success. But I would say two things that are adding up on the international front where we are winning. And indeed, they are growing a lot and winning big timeshare in Foodservice. One is global partnerships. We're really leveraging our scale and then global capabilities to offer our partners more insights and customized solutions.

Remember, many times, we compete with local players, but having this global insight makes a big difference for us to test innovation in market and successfully scale up to additional markets. And we've been building this model and replicating consistently across the globe and it's working really well.

The second point is what we call the chef-led model. I mean, that could be called our secret-sauce, let's say, in Foodservice. The strategy evolves around talented chefs. I mean, basically, if you don't have a chef, it's very easy to be in a price-led discussion, basically transactional only. And when we bring our chef into the conversation, we really partner with the customers on different needs, identifying menu concepts fit for their specific projects. And those two things, although sometimes basic, like the execution, the perfect execution of it is driving Foodservice.

And just to remind, within international our Foodservice is still growing very strongly, it's one-third smaller as a percentage of taste elevation than in the US. So, although the retail size of the business comparable, we have a lot of room to grow still in Foodservice. So definitely, we hope we're going to continue to see very good strong success with this within the next quarters and years.

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

Thank you, Rafael. In a nutshell, I would say that on Foodservice, I think in the past, we were very transactional, and we define this as one of the strategic pillars for us for growth, and we've been investing in talent, in technology, in people, in our portfolio and it's paying off. We are very excited with that. Anne-Marie?

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

Yes. So, that'll wrap up our Q&A session. Thank you all for your calls. I am going to turn it over to Miguel for some closing comments.

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

I just want to say that we continue to be very excited about what we are doing. We see our transformation evolving. The journey still very far from finishing, but we are evolving every day. And why are we so excited? We are excited because we see the momentum building, service levels up, market share, especially in the growth platforms, growing. Foodservice and Emerging Markets are gaining market share and with a great momentum.

Second, we see a very different level of agility in our company. We have today a very agile organization that is able to change, to adapt, to predict much better than in the past.

We are investing to grow. Gross margin expansion feeds investments in technology, in people, in marketing, in R&D. We are excited as well, because we anticipated pricing. And today, we have 99% of all our pricing for 2023 already announced. We have about 95% of our pricing already accepted, and we have about 90% already implemented. And so the way we see it, we'll continue delivering quarter-over-quarter, year-after-year.

With that, thank you so much for your attention, and I expect to see you at CAGNY next week. I think we have a lot of excitement to share with you. Thank you.

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