COMPANY PARTICIPANTS

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Miguel Patricio  
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OTHER PARTICIPANTS

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Andrew Lazar  
Analyst, Barclays Capital, Inc.

Ken Goldman  
Analyst, JPMorgan Securities LLC

Jason English  
Analyst, Goldman Sachs & Co. LLC

John Baumgartner  
Analyst, Mizuho Securities USA LLC

Steve Powers  
Analyst, Deutsche Bank Securities, Inc.
QUESTION AND ANSWER SESSION

Operator: Good day, and thank you for standing by. Welcome to The Kraft Heinz Company First Quarter Results. At this time, all participants are in a listen-only mode. After the speakers’ presentation, there’ll be a question-and-answer session. And be advised that today’s conference is being recorded.

I would now like to hand the conference over to, Anne-Marie Megela, Head of Global Investor Relations. The floor is yours.

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

Thank you, and hello, everyone. And welcome to our Q&A session for our first quarter 2023 business update.

During today’s call, we may make forward-looking statements regarding our expectations for the future, including and related to our business plans and expectations, strategies, efforts and investments, and related timing and expected impacts. These statements are based on how we see things today, and actual results may differ materially due to risks and uncertainties.

Please see the cautionary statements and risk factors contained in today's earnings release, which accompanies this call, as well as our most recent 10-K, 10-Q and 8-K filings for more information regarding these risks and uncertainties. Additionally, we may refer to non-GAAP financial measures, which exclude certain items from our financial results reported in accordance with GAAP.

Please refer to today's earnings release and the non-GAAP information available on our website at ir.kraftheinzcompany.com under News & Events for a discussion of our non-GAAP financial measures and reconciliations to the comparable GAAP financial measures.

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

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

Well, thank you, Anne-Marie, and thank you, everyone, joining us today. We are proud, proud and confident. We are so confident that we are raising our guidance on EBITDA and earnings per share. We are so confident that we are increasing our investments in marketing and in R&D by $100 million to $150 million versus budget, which represents a solid double-digit growth versus previous year. These results are not a coincidence. They are because of our confidence. We have been consistently
saying that we'll grow through emerging markets, and we grew 23% this quarter. We'll grow through foodservice globally, and we grew about 29% this quarter; and we'll grow through our priority growth platforms in US, Easy Meals, and Taste Elevation, where we had double-digit growth.

The rest of the portfolio has freed up resources to invest in our strategy. These results are possible not only because of our strategy, but because of everything that is behind our strategy.

Let me start with people. Today, we have a great team and very engaged team. Speed, well, agility is a big word for us. And the pods that we have in place are transforming the company, in innovation, in supply, in manufacturing, procurement, in sales, in logistics. And two good examples of that is innovation, where we have now a much stronger pipeline for the future.

And we reduced the time of innovating from three years to a couple of months. Or in supply, where through the pods and the partnership with Microsoft and the usage of artificial intelligence, we are improving our planning, our service levels, reducing waste, and reducing times. We are in a very different place today.

And finally, efficiencies. When we announced three years ago, $2 billion in five years of gross savings, there were a lot of people that were skeptical, that represented $400 million per year. We not only delivered this number three years in a row, but we are now increasing this bar to $500 million a year.

With that, I have here with me today, Andre, our CFO; Carlos Abrams-Rivera, our Zone President for North America; and Rafael, our Zone President for International that are joining me. Please, we are ready for the Q&A.

Operator: Thank you. And our first question comes from Bryan Spillane with Bank of America. Please proceed.

Bryan D. Spillane
Analyst, Bank of America Securities

Hi. Thanks operator. Hey, good morning, everyone. I just wanted to ask, I guess, two questions related to the US. One is, I think as we kind of strip out the foodservice piece and look at what's underneath, it looks like there was a bit of a dismatch or mismatch, I should say, between kind of what we were seeing in the Nielsen data and what would have been reported underlying. So just trying to understand if there was anything there relative to timing of shipments or promotions that might have affected the cadence?

And then second, if you can just talk a little bit about in the US specifically, kind of how you're seeing the promotional activity or the promotional environment as we head into some of the big summer holidays? Is it intensified? Is it in line with your expectations, just kind of how you're seeing those summer holidays set up? Please.
Andre Maciel
Executive Vice President & Global Chief Financial Officer, The Kraft Heinz Co.

Okay. Good morning, Bryan, and good to hear from you. Thanks for the question. Look, when you look at the US performance, I don’t think there is nothing out of normal happening in the quarter. The inventory load was immaterial given where it already landed at the end of Q4, as I said before. So it’s really a function of the sell-out and the foodservice, which performed very well in the quarter in the US zone.

So maybe people underappreciated a little bit the impact of that. I believe it has something to do also with the fact that last year, with Omicron and things, everything was shut down. So that impacted the sellout in retail across the industry at the beginning of the quarter, but also helped a lot of foodservice to have a very strong performance.

When it comes to promotions, as we have said all along, we expect an increasing promotional year-to-year. That’s what has been in the guidance, so we included it and outlined from the beginning, so nothing changing there on that regard, always in a prudent way and always emphasizing that we will remain well below our 2019 levels. And you listened to our remarks, how well we are doing in terms of continuing to improve our ROI with the tools that we have in place. And now I’ll pass it over to Carlos to give some color on the promotional environment.

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

The one thing I guess I would add, Bryan, to what Andre just said is, as you mentioned, the ROI has continued to improve. But let me give you a little more color as to what’s behind that. We have spoken about the agile at scale and how that has reengineered Kraft Heinz.

And part of that is us creating ownable agile revenue management tools that actually allows us to improve the returns of our promotions. So like, for example, we have a trade management system that we created in-house, and it gives us real-time access to essentially over 10,000 promotional events. And then what we do is we actually create digital tools that leverage that large amount of data to provide insights and recommendations in a very simple way.

Now those solutions then allow us to figure out what is the right depth of discount, what is the right time of the year and what are the right promotional tactics we have been doing. So if you look at our Q1 numbers, we saw about a 10-point improvement in ROI in this particular quarter versus what we saw a year ago. And it’s about 15 points if you compare that to 2019 of Q1.
So again, our ownable tools continue to help us make sure that we are driving that investment. So as we go forward, our continued focus is make sure that we invest in the business, that we are focused on the renovation of our business and marketing, driving a stronger quality with those event-based activities that really have the high ROIs. And Rafa, I don't know if anything you wanted to comment on what you're seeing in international promotions?

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

It's not very different than what you described Carlos, I think, and what Andre mentioned. You might see a bit of an increase. We will see a bit of an increase in some marketing and promotional activity through the year to go. But nothing significant that is not included in our guidance.

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

Thanks, Bryan.

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**Operator:** Thank you for the question. One moment for our next, and it comes from the line of Andrew Lazar with Barclays. Please go ahead.

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**Andrew Lazar**  
*Analyst, Barclays Capital, Inc.*

Great. Thanks. Good morning. I think you outperformed expectations, obviously, in the first quarter on organic sales growth and maintained full year outlook, I guess, potentially implying slower go-forward trends maybe than originally planned for. Is there something you’re seeing in the market that necessitates this adjustment? Or is this more a function of sort of conservatism? And I appreciate the full year outlook is already above your sort of long-term algorithm.

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

Hi, Andrew. Andre, maybe you want to answer that question.

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

Sure. Good morning, Andrew. Good to hear from you too.
Andrew Lazar  
*Analyst, Barclays Capital, Inc.*

Good morning.

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

And thanks for the question. So there is nothing that changed expectations. We are holding the guidance in top-line. And if I look at versus what I believe market was expecting, we over-delivered quite a lot in the international zones, which I think people still – they don't fully appreciate the impact of emerging markets growth in our portfolio.

And the foodservice portion of the international market in our portfolio as well. They've been performing extremely well, as Miguel indicated, and they continue to do so. Momentum is very solid. When it comes to the US, nothing changes in our internal expectations. We just think that at this moment it's good to be prudent given macroeconomic uncertainties about interest rates and how our consumers might respond on that, but nothing special.

Andrew Lazar  
*Analyst, Barclays Capital, Inc.*

Great. Thank you so much.

Operator: Thank you. One moment for our next question, please. And it comes from the line of Ken Goldman with JPMorgan. Please proceed.

Ken Goldman  
*Analyst, JPMorgan Securities LLC*

Hi. There's been some anecdotal evidence that consumers are beginning to trade down in terms of where they're doing their grocery shopping, either going from premium channel to more mainstream or mainstream to discount. I'm curious if this is something you're starting to see as well, even if it's just on the margin. And if so, is it in any way, I guess, informing your decisions about product mix, new products, things like that?

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

Maybe Andre and Carlos can comment.
Andre Maciel  
*Executive Vice President & Global Chief Financial Officer, The Kraft Heinz Co.*

Yeah. Good morning. So as you have seen since last year, the channel migration has started. So we don't see like a normal accelerated trend over that. We have seen consistently now for several months, there's these other channels and the mass merchandising gaining ground consistently.

And this is not a new phenomenon, we have been prepared for that for a while. So I'll pass to Carlos to talk about the type of activities we are doing in those channels, but we don't see anything abnormal happening. And it's as expected.

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

Yeah, what I would add in terms of color, I guess, first in retail, I mean, there has been some channel shifting which we expected. And for the lower-income consumers, this means kind of moving to more value-focused retailers or into dollar channel. And as Andre said, we anticipated this.

Now for higher-income consumer, that also means, thinking about what are the places that it can go in, instead of maybe the specialty retailers to more traditional grocery and club. And for us, what we're looking to do is actually making sure that we have the right solutions for those that are in specific channels.

So whether that is more club-sized packaging in brands like Mac & Cheese and JELL-O and adding more dollar SKUs, so that consumers who are stretched are actually able to stay within the category. And then as we talked earlier, being savvy about how we go about our promotional activities in certain categories so that we can, in fact, be there with consumers with the right overall kind of meal solution.

So if you think about what a Grilled Cheese Sandwich can do with Kraft Singles, what Kraft Mac & Cheese can do in terms of families, what Oscar Mayer hot dogs can do, us being able to be there for those kind of meal solutions is part of that answer as well. The one other thing I will say is, if you look at that same channel shift within foodservice, we're also making sure that we are adjusting, too, for that. We are seeing how our business continues to grow in QSR and for us it continues to grow. And we are doing that and we're growing share of that business as well.

So it's making sure that our consumers are shifting to and from certain restaurants to QSR. We are making sure we are there for them too, to continue to drive our products and continue to drive our growth, which is the way it resulted in Q1. So thank you for the question, Ken.

Operator: Thank you. One moment for our next question, please. And it comes from the line of Jason English with Goldman Sachs. Please proceed.

Jason English  
*Analyst, Goldman Sachs & Co. LLC*
Hey. Good morning, folks. Thanks for slotting me in. Two quick questions.

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

Good morning.

Jason English  
*Analyst, Goldman Sachs & Co. LLC*

First, the gross margin outlook for the year, great to see it moving up. It implies that your gross margin for the year is going to look a lot like your first quarter, which would, of course, mark and end to what has been like a sequential build with every quarter moving higher. I guess my question is why would that be the case, especially given the cost inflation appears to be moderating?

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

Andre?

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

Sorry, Jason, could you repeat the question talking about the trajectory of the gross margin throughout the year?

Jason English  
*Analyst, Goldman Sachs & Co. LLC*

Yeah. Yeah. Gross margins have been building sequentially, right? You even have a chart in one of your slides showing every quarter moving higher. Your full year guidance implies that it kind of goes sideways. So you're going to finish the year at a margin rate very comparable to the first quarter. So my question is, why shouldn't we expect it to continue to grind a little higher as cost inflation moderates?

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

Yeah. No, the gross margin will increase a little bit throughout the next quarters. So we should see Q4 will be the highest one. Q2 goes a little bit sideways, there is a component of mix in our portfolio as well, given the type of products that sell more during Q1 and Q4 in comparison to our sales in December.
But beyond that, no, because the costs are continuing to ease, the price, we put a lot of price in the middle of the quarter, so we have full reflection of that now in Q2. But remember as well, and then we're going to start to lap pricing from last year, right? But no, the gross margin will gradually increase throughout the year.

Jason English
Analyst, Goldman Sachs & Co. LLC

Okay. That's helpful.

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

And it's expected because of product mix, which is not seasonality.

Jason English
Analyst, Goldman Sachs & Co. LLC

Yes. That's helpful. I appreciate that. And then free cash flow, can you tell us what your outlook is for the full year in terms of conversion or a level, however you want to communicate that. And I know you talked about working inventory down. It built a lot last year, and obviously, there's still a heavy usage of cash again in the first quarter. How much of that do you think we could give back out over the course of this year? Or do we have to kind of bleed into next year before we can normalize those levels?

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

Yeah. So free cash flow, as we said last quarter, we expect this year to close in the 75% to 80% range, which is in line with our plan. We even talked about that in CAGNY. And we expect by 2025 to go up to 100%. This has to do mainly with the CapEx ramp-up that we have done this year and next year, which is close to 4% and then expect to wind down. Working capital yes, has been – was a drag last year and in Q1 was also a negative hit.

We prioritized service-level recovery, because I mean, the payback is obviously there. What I can tell you is we have a very robust plan to bring the inventories levels down. We have been working with buffers. I mean, as everybody in the industry does, given other instances about supply chain volatility and resilience. But we have a very clear line of sight to bring it down throughout the year. So the expectation for inventory is to land the year at similar levels to where it was pre-pandemic as a percentage of COGS.

Jason English
Analyst, Goldman Sachs & Co. LLC
Helpful. Got it. Thanks a lot guys. I’ll pass it on.

Operator: Thank you. One moment for our next question, please. And it comes from the line of John Baumgartner with Mizuho Securities. Please proceed.

John Baumgartner
Analyst, Mizuho Securities USA LLC

Good morning. Thanks for the question. I wanted to come back to promotion in the US, Carlos. There were a few categories that drove the bulk of US share loss in Q1. So I think those are also categories where your promotion levels really seemed below branded competitors. So is it fair to isolate the share losses to reduced promo and lingering supply chain issues or are there other factors employed outside of promo and supply chain?

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

So, listen John. I think that’s a fair assessment. But I guess, let me start with the fact that as we think about growing the business, we have a very disciplined approach of how we’re going to do that. So we are – as Miguel mentioned, we’re going to focus on our grow platforms and the growth they have in our portfolio.

We're going to make sure we're building innovation that's disruptive and that we continue to adapt the core to the consumer trends. And we're going to manage the margin with efficiency to reinvest in the business with double-digit investments in marketing, technology and R&D. And as you said, there are a few categories where we saw a slowdown. And let me remind you, too, that we took pricing in the middle of the quarter as we were catching up to margins.

So let me highlight a couple of those categories. One, cream cheese, for example. We did see some supply chain challenges that we had in the quarter. Those are things that prevented us from really taking advantage of the Easter time period and will be – and in fact, we are now in a position that will be better off as we go into the year-to-go.

Another one, I'll tell you with cold cuts in which we began the year with a low inventory situation in our business. And again, as we think about cold cuts by the end of the summer, we should be in a much better place in terms of complete supply in the overall business. So that's a sense of the short-term supply constraint, it's an assessment– well, assessment of how we see the quarter as well.

The one thing I would add too is that there are places where categories – we’re simply not going to be chasing volume down. So if you think about bacon, it's a category that we are – that probably was about a point of headwind when you’re looking at the data and consumer data, but we are simply not going to be chasing volume that is not profitable. So that gives you a sense about how kind of we’re looking at the business and what drove that first quarter.
John Baumgartner  
*Analyst, Mizuho Securities USA LLC*

Okay. Thanks, Carlos. And on the International side, your categories – I guess, historically, your categories have been pretty defensive in terms of demand during economic weakness. And I'm curious, you're doing a lot of good things, ramping distribution, launching new products.

But as you transform the business with growth in foodservice, the new sauces, the BEES partnership with ABI, how do you think about the marginal structure? Are these new outlets and products introducing greater volatility into the business? Or do they benefit you in that they reduce some of the impact of private label and price sensitivities in places like the UK and Europe? How do you think about the net resilience you're building outside the US? Thank you.

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

Rafael, do you want to answer that one?

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

Yeah, happy to. I think we need to differentiate a bit what – how we're growing in emerging markets and the developed markets across International. I think what you described probably applies a lot to the developed markets because as you know, as we've been talking about, across emerging markets, we are growing significantly and the opportunity we have in execution of this go-to-market model has been significant and continues to be.

On the developed markets, I mean it's a mix. We've been renovating our portfolio significantly in all the places, especially mentioned Europe and then launching products that have been incremental, not only in sauces but on the Easy Meals category too. Those are the two platforms that we've been growing, especially the sauces at Taste Elevation. So this has been the focus. I mean right now it's delivering the results that we expect and, again, providing the gains that we need and the resourcing from the core and the innovation growth that's coming from those introductions.

John Baumgartner  
*Analyst, Mizuho Securities USA LLC*

Thank you very much.

Andre Maciel  
*Executive Vice President & Global Chief Financial Officer, The Kraft Heinz Co.*
And just to add to that, if you remember, again International zone, we have the developed and marketing to emerging markets, right, emerging markets, 10% of our business. We expect to grow double digits like we have been doing. And expanding distribution, but it has to be done in a profitable way.

And you might have noticed in the prepared remarks that we have started to require from our emerging markets, a certain level of minimum ROIC or EVA, I think we're seeing a very healthy balance between top and bottom line. And we saw very significant gross margin expansion in emerging markets across the board in the quarter. And our expectation is to continue to improve.

So we feel very good about that part, of the investments that Miguel has said about an incremental $100 million to $150 million versus plan, which is going across marketing, R&D, technology and in some cases, sales head count. But in the case of the emerging markets, we are accelerating the go-to-market expansion.

Again, we always keep our stability top of mind here. We don't want to grow without delivering returns. And in the developed markets, not only in the US but also in selected countries in developed, we are using a part of these incremental investments to reset the marketing levels and accelerate, in some cases, the innovation agenda. So it's very good because that allow us to build, and continue to build the future growth of the company.

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

Yeah. Let me mention one thing that you said about entering new categories with innovation, you're right. I mean, we launched in UK, Heinz pasta sauce. And in a couple of months, we achieved 7% share, and we continue growing.

We just launched a vodka pasta sauce with Absolut that has been extremely successful in the market. But it's not only in Europe. I mean, if you look at the profile of innovation that we are having right now in US, it's very different from the past.

In the past, we had a lot of innovation but really not incremental, very cannibalistic. Just think about what we've been launching, like NotCo that we are going to – it's going to be national during the summertime. It's basically 80% incremental to the category or Just Spices that we just launched in the US through direct-to-consumer, which is spices, which is a huge market where we don't play today.

Or Tingly Ted's that we are launching globally throughout the year, that is in hot sauce that is a pretty growing category that we were not playing or even Kraft Mac & Cheese Frozen that we are launching, where we are a leader with Kraft Mac & Cheese, we have a very strong portfolio of Frozen, but we didn't have an option of Kraft Mac & Cheese Frozen. And I can continue this list and tell you about HomeBake and Crisp from microwave, really, really incremental innovation that will start to change the profile of innovation in our company.

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**John Baumgartner**  
*Analyst, Mizuho Securities USA LLC*
Very helpful. Thank you.

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

Operator, we have time for one more question.


Steve Powers  
*Analyst, Deutsche Bank Securities, Inc.*

Oh, great. Thank you. I just wanted to follow-up on the supply topic. It sounds like you've made good headway and have good visibility to improvements going forward. But I guess, just framing that, is there a way to think about what the supply challenges in the first quarter cost you?

And then, as you move forward with those supply bottlenecks resolved, do you kind of resume a more normal growth trajectory in those categories? Are those issues behind you? Do you accelerate, catch-up over the next couple of quarters as you dig out of the hole? Or is it more prudent for us to think about a more gradual ramp of recovery, again, as those issues abate. Thank you.

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

Andre, and maybe Carlos then.

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

Okay. Good morning, Stephen. Thanks for your question. Look, we obviously expect as some of the problems get solved as Carlos indicated, we expect over time to rebuild the inventory at the retailer and that should come together with some improvement in the top line performance. But again, it's all contemplated in our guidance here.

Remember that our priority in the US is to grow in the growth platforms and the priority grow platforms have performed very well in the first quarter, particularly Taste Elevation and Easy Meals. But we expect categories like cream cheese to improve their performance throughout the year as those problems get behind us.
In other categories like in meat, as Carlos also said, there is not necessarily going to be a strong acceleration in growth, because we’re also trying to be prudent about having the profitability there. So it's about having the right balance, but yes.

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

Yes. There is not much to add. What I would say is we continue to see the improvements in service levels. So, just to give you a kind of a framework last year, I think at this time of the year, we were kind of in the mid-80s. We are now in the mid-90s, actually closer to the high levels of 90s, as we exit the first quarter. So I feel like we do have a couple of categories that I mentioned earlier, where we have some isolated challenges. But for the overall business, we are certainly on the right trajectory to continue to service the business the right way as we go forward.

Steve Powers
*Analyst, Deutsche Bank Securities, Inc.*

Thank you very much.

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

Operator, that will be it for the Q&A session. I’d like to turn it over to Miguel for some closing comments.

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

I just want to thank you for the time you spent with us, and looking forward to sharing more information and more results with you. Thank you so much.

Operator: Thank you. And with that, we conclude today’s conference call. Thank you for your participation. You may now disconnect.