Company Name: Kellogg
Company Ticker: K US
Date: 2016-02-17
Event Description: Consumer Analysts Group of New York Investor Conference

Market Cap: 26,845.63
Current PX: 75.75
YTD Change($): +3.48
YTD Change(%): +4.815

Bloomberg Estimates - EPS
Current Quarter: 0.942
Current Year: 3.699
Bloomberg Estimates - Sales
Current Quarter: 3464.615
Current Year: 13453.222

Consumer Analysts Group of New York Investor Conference

Company Participants

- Unverified Participant
- John A. Bryant
- Paul T. Norman
- Ronald L. Dissinger

MANAGEMENT DISCUSSION SECTION

Unverified Participant

Good morning, everybody. If we could find our seats and welcome back to CAGNY Day 2. We're very pleased to welcome The Kellogg Company back to CAGNY this year. First off, please join me in thanking Kellogg for once again sponsoring a really awesome breakfast this morning.

Since August of last year, Kellogg has spoken of hitting in inflection point in its business and getting back on its long-term growth algorithm this year, in large part driven by productivity from its Project K and ZBB actions, a core ready-to-eat cereal category, which is in a much more stable place and continued very strong growth at Pringles.

And in its recent Analyst Day, management spoke of hitting 17% to 18% EBIT margins by 2020, roughly a 300 basis point improvement. So with us to further discuss Kellogg's strategy and momentum in 2016, I turn it over to Kellogg's CEO, John Bryant. Thanks for being here, John.

John A. Bryant

Appreciate it. I think you just gave the bulk of the presentation there. It's fantastic. Let me start by turning your attention to the forward looking statements. Please take a moment to read these. Very simple agenda for the day: I'm going to give you a sense of how we're going to accelerate our growth in 2016 and beyond. I have Paul, who is going to bring us back to life in North America, and then Ron's going to talk about our financial visibility, our productivity programs and our confidence going forward.

As you think about The Kellogg Company, is we're putting the business into context. In 2000, we were about a $6 billion business, 70% cereals, 20% snacks and 10% frozen. Today, despite foreign exchange, we're about a $13.5 billion business, nearly 50% snacks, mid 40s on cereal and 7% on frozen foods. So you see a continued expansion of our snacks business and a transformation of the portfolio. Today, we are still the largest cereal company in the world. We're the second largest cookie cracker company and the second largest savory snacks company. We also have a – we've also continued those changes here in recent years. So Pringles in 2012 was a transformational acquisition, particularly for our International Snacks business.

Our joint venture in China with Wilmar is going very, very well. Last year, we made a significant investment in Nigeria, which will transform our African business, and we made two acquisitions in Egypt, the largest cookie cracker company and the largest cereal company. So we continue to progress the change in the company's portfolio. And we have an outstanding leadership team, about half of our leaders are from outside the company or from different perspectives, different views on the industry. And the combination of those external perspectives, along with the legacy Kellogg executives, who have seen how it works, what works, what doesn't work in our category is a great combination and makes us an even stronger company.

It worth for us to stepping back and reminding ourselves what we said when we were at CAGNY in 2014, a couple of years ago, what we said was going to execute Project K with excellence. We just announced one of the largest restructurings in the company's history. We're going to reenergize, develop cereal, we're going to accelerate the Pringles growth and we're going to expand our emerging market business. And we've done all four of those things. Project K is driving significant savings here in 2016, 2017 and 2018. In addition to that, we've added zero-base budgeting on top of that, so we have unprecedented productivity programs and earnings visibility. We've reenergized cereal, particularly here in North America and we're taking the lessons learned from that and applying it to the UK and Australia. Pringles has been an outstanding success, of greater high single digits since the date of acquisition and we've continued to be in the early stage of the growth story behind Pringles and we've made dramatic progress in our emerging market business, which I'll show you here shortly. So, with meaning of all that criteria. But, what we're going to do next? I'm going to talk briefly about our goals in 2016, then talk about our 2020 growth plan, and then say, if we're sitting here in 2018, what should you expect to see from the Kellogg Company. First, 2016, very simple. We're going to build momentum, top-line and bottom-line as a company. We're going to continue to drive the productivity programs and the visibility and flexibility that provides, not just in 2016, for 2017, 2018 and beyond. And we'll be back on our long-term algorithm.

Our 2020 growth strategy, many of you saw this at our Day at K last year, four pillars, we're going to Win in Breakfast, Global Snacks Powerhouse, Emerging Markets and then the fourth one, which is really an enabler, Win Where the Shopper Shops. We pull this up as a strategic pillar to emphasize and dramatize the importance of this to the company. So, just quickly taking you through each of these, starting with Breakfast. Obviously you can't have a conversation about Breakfast without talking about the U.S. Cereal business, and we've seen a significant improvement in U.S. Cereal in 2014 to 2015, and we expect to return to growth in 2016. We're striving that on a number of factors. One, we're investing back into food. So the additional – the renovation of Special K Red Berries with the addition of more Red Berries, Special K Nourish launching here in the first quarter, improvements to Kashi, all these items are making sure our products are on trend from a food perspective. We have incredibly strong brands, some of those needed to be tweaked. We've moved Special K, Special K to more of an inner strength positioning and the business is responding incredibly well.

Feet on the street in our U.S. Cereal business is improving our installed merchandising and performance. All these things are helping our performance in 2015, 2016 and beyond. What makes me excited long-term about this business is the out-of-breakfast consumption potential. Over 30% of the category now is consumed outside the breakfast occasion. So there's a lot of growth within this business that we can unleash as we go forward. And Paul will talk more about developed cereal here shortly.

Kashi has also been a source of weakness for us over the last couple years. We've taken the steps to fix that and we're seeing strong progress. We moved the team back out to California. We've given them a great deal of latitude and autonomy, and they're moving with incredible agility to ensure the food is on trend and to come out with great new innovation.

If you look across 2015, each quarter improved and in 2016, we expect to see the business back to growth on a full-year basis. So there's some tremendous progress here. Across the 2000s, what grew our cereal business? Special K and Kashi. What's been weak the last three, four years? Special K and Kashi. What's coming back? Special K and Kashi. So we feel good about the performance and the progress we're making, particularly on our adult cereal businesses.

Let's turn to snacks, and of course Pringles has been a homerun success for the company, growing high single digits since the date of acquisition. And if we look in Europe, we've been growing double digits in Europe. And in Europe, we actually had some of the highest shares that we have anywhere in the world. So when you look at the opportunity we still have in Asia-Pacific, Latin America and North America where our shares are still relatively low, we have a lot of growth potential, a lot of runway for this business, and more capacity continues to come on stream and continue to drive this business as we go forward.

Also, snacks has been where we've been a bit weak over the last couple of years, what's happened to us here. Special K is a big brand. The expectation of food in that area has changed. We need to renovate that food which we have been doing and launch new food. If we think about our 2020 growth strategy, we're excited about the potential for wholesome snacks. But the first and most important step is to ensure our food is absolutely on trend, and that's what we're doing by investing back into food, launching new foods around the world, more in line what consumers are looking for.

Another opportunity for us is here in the U.S. We have some incredible local jewels, Cheez-It, a $1 billion brand growing strongly over the last 19 years. Paul will talk more about that. Keebler we think is an underdeveloped opportunity for the company, and we're looking to invest back into the Elves. And while Pop-Tarts is a breakfast business, it is also consumed as a snack throughout the day, and we think we have tremendous opportunity here as well. There's a couple billion dollars of business on this slide in three very strong brands and opportunities for us.

Let's move to the emerging markets. We have made good progress in the emerging markets since 2011. In fact our business in 2015 is 70% larger than what it was in 2011 on a constant currency basis, so no Venezuela impact in these numbers, just constant currency growth across the business.

What's driven that? Pringles has obviously been a great help. It's given us two paths to growth, two horses to ride, both cereal and snacks. We're also doing well in Russia, where we have the number two cookie cracker business. Our joint venture in China is a great success. It's growing double-digits since the day we started the joint venture, and we've taken over category leadership in cereal in China. So feeling very good about how that business is performing.

As I said at the beginning, we acquired two businesses in Egypt, the number one cookie cracker business, number one cereal business and Egypt gives us an opportunity not just to expand the business within Egypt, but to expand across the North African region from that base.

And we made a foundational investment in West Africa last year with an investment in Nigeria, and a joint venture across that part of the world to drive our cereal and snacks business. So, we're excited about the potential of that business. And even though Nigeria is having some challenges from a macroeconomic perspective, the business continued to grow at double digits in the fourth quarter and is doing well in the early part of this year as well.

But our growth in emerging markets is not just a discussion of snacks and joint ventures and acquisitions, it's also the underlying cereal business. Again, on a local currency basis ex-Venezuela, we grew our emerging market cereal business 6.5% last year. And we grew that by ensuring we have the right pack size, the right price point to sell in the right location, and penetrating down from more of a A/B socioeconomic group down into a broader household penetration. It's also being helped by the launch of things like granolas, resealable bags, et cetera. So, some great growth across the emerging markets in cereal.

What's our plan for emerging markets? We want to accelerate our growth in Latin America, particularly in Mexico. We're going to double our Asian business over the next five years and we've seen double-digit growth in Asia last year. We want to triple our Arabian business and clearly our acquisitions in Egypt helped us significantly. And also Pringles has been showing tremendous growth in the Arabian region, and, transform the African business through the investments we made with Tolaram. So, feeling very good about our path down this journey.

Let me talk about win where the shoppers shop. This is the enabler that enables our first three strategic pillars, and it's a very important area for us as we go forward. First, you can see in the U.S. the benefits of investing in our U.S. sales force. Feet on the street is helping drive our U.S. Cereal business. We're also investing back in technology to improve the effectiveness of our DSD system, an incredibly strong asset in this marketplace and one that we want to leverage and drive even harder. And we're growing in the alternative channels here in the U.S. To give one example, we've been growing double-digits in convenience channels. Historically, we've been much more of a big-box grocery outlet company. As we're driven to become more of a snacks business, that convenience channel has been a great source of growth for us.

When you get into the emerging markets, this is probably where the biggest change is. We're going from a company that sells big boxes of cereals in large grocery outlets to being in high-frequency stores, small mom-and-pop stores in the right package size at the right price point, driving consumption down that socioeconomic groups and we're seeing tremendous opportunity here and is part of the reasons why our emerging market cereal business is growing as strongly as it is.

But of course as you think about the retail environment, you have to recognize that e-commerce is going to change how shoppers shop. We're seeing it today in other parts of the world, whether it be China, Korea or the UK that consumers, shoppers are shopping differently. So, we need to take the lessons learned from those markets, be a global thought leader with our retail partners and help them go through this change that's happening in our industry.

In addition, we need to do test-and-learns. So for example, here in the first quarter in the U.S., we are launching a small direct-to-consumer business in the area of granola. We're doing that just to learn from the large investment from the company. We're doing it to learn and then to reapply it back into our business and you'll see us do more things like that as this area continues to change the environment which we operate in.

And what to look forward to seeing here in 2016, 2018 I should say? What to look forward from the Kellogg Company? First, performance at least in line with our financial algorithm, that we have on-trend brand and food, that we have a strong core business, that U.S. Cereal business and U.S. Snacks business are both performing. We continue to drive the momentum of the Pringles business and we continue to expand our emerging market platform. So we have great confidence in 2016 and beyond. We've made transformational changes to the portfolio. We have without question the best leadership team at The Kellogg Company in my 18 years at Kellogg. We have a clear strategy for growth. We have excellent earnings visibility due to the productivity programs and we're absolutely committed to returning this company to profitable growth.

With that, I'll hand over to Paul to take us through North America?

Paul T. Norman

John. Hey, good morning, everyone. It's good to be here again with you today. I'm going to talk about our North American business, where we are, where we're looking to go and hopefully give you a good sense of optimism that we're on track to get this business back to profitable growth as of 2016 and to maintain that in the out years as well.

Here's the North American business, the chart we showed back in November, just over $9 billion in net sales. Six big categories, as we look at it, leading positions across those categories, underpinned by some fabulous brands that I will talk to in a minute. Those brands are as relevant today as they've ever been and I think they're as relevant in the future as they've ever been as well.

Back at our Day at K, we did talk quickly about trends in the industry. None of this is new too, but I think it's worth me touching on it to give you a sense of how those brands are as relevant today as they've ever been, and I think they're as relevant in the future as they've ever been as well.

Back at our K, we did talk quickly about trends in the industry. None of this is new to you, but I think it's worth me touching on it to give you a sense of how it's relevant to us and what it means to us when we think about sources of growth in our business. Interestingly enough in food, the number one reason why a shopper, a consumer or a person like you or me will buy a food brand is still taste, taste trumps everything and therefore we're a food company. We have to put our emphasis on taste. Health, wellness and transparency are critical as well, but they very much depend on where you sit on the continuum of your relationship with food as to how you view the importance of health and wellness. If you're on the far end of the continuum, it could be very important. If it's just some health reassurance you're looking for, taste is still probably the most important thing.

I'll talk in a minute about transparency. One thing we do know in our industry at large is that, people who buy our brands want to know more and more about where those brands come from, the company that makes those brands, where we stand on sustainability, where we stand on nutrition, and what's actually in the food they buy from us. And I'll talk about a platform we launched a year ago where we continue to have an ongoing dialog around the foods we make with the consumers, our consumers who buy those foods.

Convenience continues to be a huge trend. The great news is there's premiumization in convenience, the opportunity for our company is that we under index when it comes to small sizes, small formats for occasions. And therefore, big opportunities for growth for us across, primarily our snacking portfolio.

Millennials, the biggest cohort, the cohort of the most interest to all of us. The great news about Millennials is they are variety seeking. A larger proportion of Millennials buy cereal than any other generation in this country, and they seek variety. We play in repertoire categories, this makes the Millennial consumer very interesting to us, and I think gives us huge potential to win in our categories with Millennial consumers.

Then you go to the last two, John touched on it, blended retail reality. Where our growth is coming from in the industry today is not where it was coming from 10 years ago and that's going to continue to morph as we look forward. It requires us to think differently, it requires us to do things differently and build new capabilities. We need to build new capabilities also in marketing, help people interact with brands that's changing dramatically. The amount of money we invest, and we invest a lot relative to net sales, on television advertising is coming down year-by-year as we look to invest in different ways to unlock consumer behavior in this new digital world, where they interact with the brand and where they buy the brand is obviously changing day-by-day.

Sources of growth, let's talk about taste. We talked a lot over the last 18 months, two years about Special K and the issues we're having on Special K, the brand got caught being a diet brand, when diet was no longer what our consumer wanted. So, we changed the positioning moved away from diet. We reinvested, we re-did all our packaging to focus on appetite appeal and reinvested in our food. We put more of what the consumer wants, Red Berries in our biggest SKU is Special K Red Berries.

And we focused all our dollars when it comes to advertising on advertising the food. What's in the food and why the food is a delight to taste and we have seen the turnaround in the business. Everybody still knows what Special K stands for. Whether you are on a weight management journey or not, you understand Special K, we haven't been investing behind taste.

Investing behind taste on a brand like Special K the results you'll – you will now know. Doesn't mean health and wellness and transparency isn't important, especially for certain consumers out there. Take the Kashi consumer, we spent 15 months to 18 months reengineering or renovating all of our Kashi foods, so they're Non-GMO Project Verified.

That puts us now in a place where we can now engage the Kashi consumer day-in day-out with our brands, and feel much more confident that the food is what the consumer wants from a Kashi point of view. I mentioned Open for Breakfast a year ago, we launched it, it's a digital platform that gives us a two-way dialogue with our shoppers, with the people who buy our brands to discuss whatever it is they want to talk about.

We find those experiences and those interactions very good for us. And we know that the people who interact with us go away with a better impression and a better feeling about our company, the Kellogg Company.

Talk about Food Anywhere/Anytime this is a slide I showed back in November as well. We significantly under index relative to our peers, when it comes to food being available in single serve portion controlled sizes. This is nothing but opportunity on big brands like Pringles, like Cheez-Its, and other brands even like Pop-Tarts too that we get more food in the right format, in the right retail environment, and so that it can be either consumed immediately or used in different ways relative to how people consume food on the go.

Millennials, we've talked about, the irony is and I often say this, Millennials want taste, they want health, they want it all when it comes to food. The irony is our fastest growing brand when it comes to penetration over the past two years with Millennials is Froot Loops. It's not one of our health brands. Millennials want taste, they want indulgence, and they want health. Here's what we're going to talk a bit about this morning.

As we look about – look to returning to profitable growth, accelerating momentum behind our advantaged brands in cereal. I'll talk about the core six in cereal, snacks and frozen. Secondly and importantly, and it's a bit of both ends, you've got to win on the core, you also need to play the edges a little better. And therefore, we're going to take back transforming our veggie business – someone turned the lights out on me, thank you – and it's off again – and transforming our veggie business, from a meat substitute business to a veggie cuisine business. And then the power that we think we have in unlocking the full potential again of the Kashi Company, and that's the Kashi brand, that's the Bear Naked brand, so also the Stretch Island Fruit snack brand as well.

We'll talk to margins, and I know Ron will follow-up on this after me. We believe we have a good line of sight to expanding operating profit margins over the next three years or so, and doing it while investing to grow, success looks like growth at the top and the bottom line. And then, John mentioned the leadership team, I'll touch briefly on the new leadership team in North America, who I think are the perfect team to lead the transformation we need.

John mentioned the cereal business and the cereal category. It's great to see the category come back. It's great to be – to leading a lot of that change in the category, when it comes to growth across our portfolio. Craig Bahner, who leads our Morning Foods business, talks about these three ingredients for growth, and he does nothing but talk about these three things all day long within the Morning Foods business. We're a food company, we need food that rocks, whether that's renovation or innovation, we start with great food. Secondly, we have fabulous brands, we need to unlock the power of those brands across all consumer needs within our category in breakfast and outside of breakfast.

And then finally, we need to bring this to life, in store, whatever the retail environment, but in particular in the big box retail environment, where we are most today, we need to make the center of store more fun, more engaging, and give consumers more reasons to buy our category day in, day out. Here's our innovation for the first half, I'm going to touch on a couple here.

One is Nourish. If you've seen the turnaround in Special K, the next level is taking even more wellness to Special K, fabulous food, I don't know if you've got to taste it this morning, or – but I managed to take a sample. It's in the market now, it's off to a great start. We think it's going to extend the growth for Special K through 2016 and beyond. The most requested brand that we don't do anymore, that we have to bring back was Smorz. Consumers write time and time again that they want us to bring back the Smorz brand. That says to mean indulgence, taste and fun are still as relevant as ever in the cereal category.

Dory, you see down there, it's a licensed property. We did last year the Avengers and we did Frozen, a set of Frozen license food. Again, very useful, very important and engaging our shopper week-in, week-out, with fun around our categories. There is this Froot Loops pack here in the re-closable bag, that's a small format. That's a format that goes in a certain channel that serves a certain need towards the end of the month because it's a lower price point.

At the beginning of the month, many of our consumers can buy the big boxes. Towards the end of the month, based on their disposable income they can't always access the category. In certain channels putting formats there that allows consumers to access the category throughout the month based on their means is really important for us that we meet the consumer where they are, and as John said, we win where the shopper shops, when the shopper shops wherever it is, whatever time it is in the month.

Our big six, brands that matter, these brands do probably 65% to 70%. They cover the needs of the category. So, you've got some taste, you've got nutrition, you've got balanced health, you've got fun and engagement. These brands are growing significantly faster than the category, and these brands are the reason why our business is coming back strongly into a growth position.

We talk a lot about firing on all cylinders across these six brands. We need relevant renovation, Red Berries is a good example. We have more coming on Raisin Bran this year. We need great innovation that expands the brand's reach into new places and we've got some great news coming with Nourish this year on Special K and also Mini-Wheats as I showed on the previous slide.

We need fun in the box. So, we need to bring big properties to life in a big way in store and engage our shoppers in our brands, day-in, day-out in store. We've put our sales force back in cereal, which means we can up-sell and drive right through to the point of purchase all the sales fundamentals, when it comes to building our business day-in day-out, whether that's getting the assortment right, getting the holding power right on big weekends across the category, and driving the most effective merchandizing we can in the store for the category and for the Kellogg Company. You put that combination together, you are firing on all cylinders and you start to see these kinds of results come through.

I mentioned fun and excitement, we have Finding Dory. If you remember Finding Nemo is one of the biggest movies of all time. Finding Dory is coming in May, June this year. We'll be activating behind that. And we are the proud sponsor of the U.S. Olympic team, and we'll be activating big time behind the Olympics in the third quarter as well. So, I feel good about the sufficiency of ideas coming through the business that will engage consumers in our category through the year.

John mentioned, out-of-breakfast consumption, the latest data says, more than a third of all cereal consumed is consumed outside of breakfast now. And there's a brand here Rice Krispies, which traditionally has done a lot of its work in treat making and beyond the bowl, if you like in the breakfast occasion. We hadn't been investing a lot in that area over the past few years. We diverted more resources to Rice Krispies to specifically drive beyond breakfast consumption through the fourth quarter and have seen the brand lift off in the fourth quarter behind the activity I'll show you now.

[Video Presentation] (26:33-27:04)

That work as I said has been very successful for us in the back quarter of last year. Prior to that, a lot of the growth in Froot Loops was driven by a specific focus on millennials consuming the brand outside of breakfast as well. So there's a lot of growth potential for the category in the breakfast occasion and beyond the breakfast occasion going forward.

Let's switch gears and talk to advantaged brands in snacks. The two that are obviously the biggest and come most to mind are Cheez-It and Pringles. Let's talk Cheez-It first. John alluded to the fact the Cheez-It is a powerhouse. It's our biggest brand in North America, and it's over $1 billion in sales. It's been growing for 19 years consecutively, clicks along at about a 4% CAGR, but the interesting thing about Cheez-It, it is still really a cracker brand that lives in the cracker aisle in a box, in a bag.

There are huge opportunities for us to accelerate growth across Cheez-It, if we can put Cheez-It more within arms reach of more people, wherever they shop, wherever they choose to consume. First things first though, we are going to be investing more in the base brand of Cheez-It. We don't want run off to the white space and not invest in the core. So we're going to invest more in the core in 2016, but at the same time we need to explode the way the brand is available in terms of number of formats and number of possibilities to buy.

So we will be expanding channels both into larger format and importantly into smaller format. That enables us with small formats to get into new meal occasions, new eating occasions which will be highly incremental to the growth of this brand. If you ask shoppers or consumers or customers, the frame of reference or the competitive frame of reference for Cheez-It, it's not seen by people who buy it as a cracker. It seemed far more as a savory snack. We need to lean in, redefine that frame of reference, and drive growth in Cheez-It, and source from adjacencies where possible.

I'm going to show you a spot now for Grooves, which is an innovation that's been out 18 months or maybe a bit more, continues to grow, but is not available today in enough of the right formats and enough of the right places. The food is a snacking accompaniment food that we think has huge growth if we can unlock its full potential across channels and across occasions through packaging. Here's Grooves.

[Video Presentation] (29:16-29:31)

Even our advertising features a box. That food should be available in more bags and more places, a big opportunity for us.

Pringles, John mentioned the success we've had over the past, since what, 2013, so the past three years with the Pringles brand around the world. We've had great success in the U.S. as well. However, we can do more in the U.S. based on the experience I've seen and John mentioned around the world in places like Europe, activating the brand. There's a lot more growth to be had in Pringles.

First things first again though, we're going to invest more in brand building this year behind Pringles. Make sure we've got the core assortment right, make sure we've got the shelf right everywhere we play today with the big can, particularly the big red can. Then we've been investing in capacity, as you know over the past three years, and we're lucky enough to have coming on board now capacity in smaller formats in the U.S., so we have small can capacity and we have those small snack stack formats coming on screen now, which opens up new opportunities for growth for us. It opens us up into new channels and opens up into new occasions in terms of lunch box and on-the-go immediate consumption.

We will still continue with Pringles as we've done with Tortilla to lean into adjacencies beyond the potato chip itself. When you put these three things together, there's a lot of upside for our brand across channels in occasions. And even in the core format, in the core grocery aisle that we already play in.

To get out of snacks and get into frozen, we have a fabulous brand in frozen which is Eggo. Eggo has been growing over the past years, four years around 6%. Everybody knows Eggo, we all grew up with L'Eggo My Eggo. That line, that idea is still as relevant today as it has ever been, and we're transforming the use of that idea into modern ways in a digital world. And so we got to continue to invest more and more in the core of the Eggo business, the core syrup carrying Eggo brand and some great new ideas coming through this year in that area. We're also going to continue within the breakfast arena to source more from adjacencies, and we've had good success with the Eggo breakfast sandwich over the past year or so. And we think we can continue to play beyond sweet into savory with the Eggo business.

And then when it comes to food, this is a warm food, the aroma is fabulous in the morning when you put it in the toaster. We need to continue to invest in our food and make our foods even better. We will do and we have done some nutrition health oriented angles to Eggo, so we have gluten free in the market. But our focus going forward is going to be very much more around better taste and some health reassurance.

So we have Oats & Berries coming in May this year, which is great food, all natural ingredients, real berries and we feel good that that's going to be a big step up for the brand. Thick & Fluffy has been a huge success for us. We're bringing more indulgent flavors of Thick & Fluffy to the table as well later in the year.

Then Eggo, the benefit of being part of the big Kellogg portfolio of events that we run with big properties, and we're going to leverage those properties to bring more fun to kids, especially in our Eggo business as well. So we've had a great glide path. We see a formidable glide path going forward of growth on the Eggo brand as well, which will drive our frozen portfolio.

Go to the second area, this is the both hands, so we've got to get the call right, and there's still work to do in some of the categories, obviously you know I haven't spoken about this morning. But beyond that, transforming our veggie portfolio and getting the full potential out of Kashi offer huge upside for us. These are two real growth engines for our business.

Veggie, we're in the middle of a transformation that's taken more than a year of hard work by a lot of people. We're transforming some of our foods. We're transforming the design of our packaging. We're transforming the structural nature of our packaging and moving to more flexible packaging, packaging that reseals, that guards the integrity of the food in the freezer for longer. And that means a complete, actual reset of shelves across all of our retail partners. And we're bringing innovation. So, no longer just meat substitutes. We're now bringing Meal Starters. We're bringing protein packed Veggie Bowls to play. And we're also making sure we deal with all needs, including organic, vegan, et cetera in terms of the portfolio we offer.

This is all happening as we speak. We were bringing down capacity in the fourth quarter. We're ramping up as we speak, now through the first quarter. And we should be able to turn on our new brand engagement tools in the second quarter of this year. So, we are well on our way to transforming our veggie business from meat substitute to veggie cuisine.

Kashi, John mentioned that we're returning to growth this year in Kashi. The team is out, they're mission-focused, they're food first in everything they do in California, and they have a stake in the ground. We will lead in plant-based nutrition with the Kashi brand going forward.

The other thing is, we spent 15 months or so, as I said, renovating all our core foods, so they're now Non-GMO Project Verified, and about half of our Kashi portfolio is also organic. All of our Fruit Snacks are organic, and our Bear Naked brand is also Non-GMO Project Verified. So, our food is right. We can now lean in and communicate to those food forward consumers to really kick start the growth in Kashi, something we haven't been able to do over the past year until we got the food exactly where it needed to be.

In the process of getting the food right, we've also ramped up our innovation. And you're going to see a lot more in the way of progressive, pioneering innovation. Dave Denholm talked about these things at our Investor Day back in November. First brand to talk about GOLEAN, it's our biggest brand in Kashi, but we haven't innovated really behind GOLEAN for several years. And in cereal and in bars, we've seen our bar business fall away. We're back at the beginning of the year with a new Plant Power GOLEAN clusters, plant-based nutrient-dense food, a great source of protein and fiber, gluten-free and importantly soy-free, so the source of protein is non-soy and Non-GMO Project Verified that's in the market as we speak. I think it was out there this morning and these bars were definitely there this morning. These are the new GOLEAN Plant Power Bars which are fabulous. These are all entering the market as we speak. So I now have a line of sight to the building blocks for growth to get Kashi back to growth in 2016 and beyond.

Talking about innovation ramping up, we're going beyond the GOLEAN brand to culturally inspired crackers and bars. Dave talked about these as well in November. So we're taking ancient grains like teff. Teff is an Ethiopian grain that's 6,000 years old he told me and we're putting that in our foods, unique ingredients, great tasting foods and crackers. And we're also taking wholesome bar range more savory as well. So we're bringing pioneering innovation as our consumer and our shopper would expect from Kashi into play later this year. And then we're entering new spaces altogether with Kashi and this is powders, Kashi Organic Breakfast Super Blend. 15 grams of protein, organic super greens and super fruits, Non-GMO Project verified, gluten-free, soy-free, three delicious varieties, a big step forward for Kashi to really stake its claims in plant-based protein as a leader in the industry.

So I'm very excited that we can start to see the glide path back to growth on the Kashi business, the Kashi company. Obviously, Bear Naked continues to grow at a high-single digit, low-double digit click. You can see that continuing to go. And Stretch Island, our fruits snack business, although small, is growing double-digit as well. So over time here I can see Kashi coming back to becoming the growth engine that we used to be.

Let's talk expanding margins. And Ronald will talk a little bit more on the numbers in a minute. But as you know, within North American business, we're always focused on ongoing productivity to offset any inflation that comes our way. We're in the middle of Project K and we have some good savings coming through Project K this year and then we've upped the game. Six months ago we got into ZBB and we're now into ZBB in North America as of January, and taking it on in the Kellogg way with the Kellogg values and really seeking to take out any waste in our system and redeploy that against profit or growth.

As you think about our commitment to expand margins, our commitment is also to grow this business over the next five years. And therefore, we are looking to selectively reinvest where we can, where we see the benefits to top line growth. Whether that's innovation and some of the things you're seeing from Kashi, we've had to take disproportionate positions to get after, otherwise Kashi wouldn't have got there with their own means.

Renovation acceleration; we've seen the work on Special K but there is more to come on Raisin Bran this year and obviously we've spent a lot of time and attention renovating our Kashi foods over the past year or so. Brand activation; John mentioned it, we're back in 2016 with Keebler. We haven't been on air in seven years or eight years, but through the great work the team's done through ZBB really prioritizing our investment, removing those lower return on investment activities, we've been able to refocus some of our money against getting after turning the cookie business around.

We have some great brands that are unique, the foods differentiated, we need to invest to bring those brands back to where they need to be with the millennial population and by the way loves the Keebler brand.

We need a continued investment on-the-go format. Channel activation, John mentioned e-commerce. We need to place some, we are placing some bets out there around how we accelerate growth in areas like e-commerce. A lot of our growth, as I said, is happening in untraditional channels, how do we resource to continue to accelerate that growth because that's where the shopper's shopping. We need to be able to play where we currently play and we need to be able to play better where we don't play strong enough today.

And then capabilities; John mentioned the sales force, we're going to continue to invest in our Morning Foods sales capability. We will probably put more in this year. We're also equipping our DSD organization with much more in the way of technology, so that we can be better when it comes to selling and better when it comes to merchandising. And if we reinvest in some of our co-brands like this, we'll get the shelf right, we'll get the pull in the business and then that asset of DSD could really come into play and drive the growth from a display and activation point of view.

Finally, the leadership team; you met some of – I think some of you met some of this team in Chicago in November. Craig joined us just over six months, seven months ago and Morning Foods is off to a great start. Wendy leads our Specialty business. David came back to the company to run Kashi. Deanie joined us in the final quarter of last year, August, September time, and is off to a great start in Snacks. Andrew has been around a while and so is Carol and know the company very well. So I have a mix of new to the company and experience in the company. Nearly everybody on this page, I think five out of six, have a deep general management and deep marketing background. Two of them were previously CMOs of other companies as well as having been general managers. So I think we've got our center of gravity focused in the right place. Strong general managers, people leaders with a focus on building brands as we go forward. This team has an owner's mindset and a play-to-win attitude every day when they come to work and that's exactly what we need, if we're going to set the tone for our organization to change the outcome over the next three years or four years, which leads me to the summary.

Accelerating momentum behind our advantaged brands and Cereal, the Core Six, the big two in snacks and Eggo. We have more work to do, but we're going to do that first and foremost. We're at a point where I think we're going to transform Veggie and unlock the full potential of Kashi over the next three years. We can and will expand margins and we have a line of sight to do that, while still being able to invest where it makes sense to drive top line growth because success looks like both and then I have a great leadership team who are I think exactly the right people to take us forward.

Okay, with that, I'm going to step down and give you Ron. Thank you.

Ronald L. Dissinger

Thanks, Paul, and good morning. I'm going to cover four areas with you. First, our long-term targets and our regional growth goals as well and operating margin expansion expectations; then I'll land on our 2016 guidance also and we'll touch on fuel for growth, our base productivity programs, zero-based budgeting and Project K; and last our cash flow and returning cash to our shareowners.

So, first of all, in 2015 we met or exceeded all of our objectives as we set out our guidance for 2015, and we have good visibility to 2016 and beyond. Based on revenue trend improvements that we've seen through 2015, the structural cost improvement programs that we're executing at this point in time, and our base productivity programs. That coupled with our working capital programs gives us confidence in delivering strong cash flow results as well.

So here are our long-term targets; no change, consistent with what we've communicated before. We've got an approximately 3% dividend yield. Our goal is to provide over the long-term low-double-digit returns to our shareowners consistently. These are our regional growth goals and this is consistent with what we've shared with our investors previously as well. As you'd expect, in our big developed markets, we expect low-single digit sales growth in those markets, North America and Europe. We have margin expansion opportunities in those regions. Our zero-based budgeting initiative in those regions as well as Project K are delivering savings that will allow them to achieve those operating margin expansion goals. And frankly, as we proceed through 2016, that is exactly what you will see. You will see strong profit growth in these regions and operating margin expansion as well.

In Latin America and Asia Pacific, we expect mid-to-high single-digit sales growth. We're investing in Latin America, we're comfortable with our operating margins, and expect to maintain or hold margins over time. In Asia Pacific, in 2016, we are also investing in the region, but over the long-term we do expect to expand operating margins. And the other thing I would point out in Asia Pacific, these sales growth goals are based on what we consolidate into our profit and loss statement through the entirety of the profit and loss statement.

As you know, we have some joint ventures in China and in Africa. If we added those onto our sales growth expectations, actually we'd be more like low double-digit sales growth within that region. So we expect to grow our sales over the long-term low-single digits and we have an expectation by 2020 to grow our operating margin to 17% to 18%. Now what I would say is this is not a ceiling. There is nothing that structurally inhibits us from delivering stronger operating margins. This is a target at this point in time for us and we're confident in achieving this target.

Here's our guidance for 2016. This is exactly what we shared on our fourth quarter conference call last week. So we're seeing accelerated inflation within the Venezuela market. We do still, based on our facts and circumstances, consolidate Venezuela into our results. But let me be clear, even if we excluded Venezuela from our consolidated results, we will deliver upon all of these growth expectations in 2016. So this guidance holds without Venezuela and we stated that on our conference call last week as well.

Now let's move into our fuel for growth programs, foundational for us to achieve our growth strategy. First, we're always looking for base productivity improvements and we have demonstrated over the long-term the ability to generate 3% to 4% productivity improvements in costs of goods. And we've always strived to try to offset inflation and overhead as well through base productivity improvements.

We launched Project K at the end of 2013. That project is progressing well. You will see later, we remain on track with the original financial goals for that project. Once we were confident that that project was progressing smoothly, we had good visibility to how that would roll out over the four-year period, we began implementing zero-based budgeting starting first in North America and now we're cascading that across the globe.

Those incremental structural cost improvement programs are giving us stronger confidence, not just in 2016, but as we move into 2017 and 2018 as well to be back on our long-term targets. We've showed this chart before. It displays our base productivity improvements, and in 2016 we expect an incremental $100 million of savings in Project K and then incremental $100 million in North America in association with zero-based budgeting.

Now on Project K, this shows the progression of our incremental savings over time. As I said, about $100 million in 2016. As we look at 2017 and 2018, $140 million to $200 million worth of savings with much of that coming in 2017. So it gives us good visibility to cost savings as we move into 2017 as well. In addition to that, as I said, our investments and our returns in association with this project are exactly as we cited when we launched the project at the end of 2013. So we're well underway and good visibility to deliver on this program as we move into 2018 and it concludes.

Now on zero-based budgeting, we began the rollout in North America mid-2015. We've done the dissection of cost, interrogated our spending, and put roughly $100 million worth of savings into our budget at this point in time. So that is all established within our plan.

We have begun the rollout already within our international regions as well. And you can see, across the globe we are looking at $3.5 billion to $4 billion worth of discretionary spend. In North America, you may recall we said it was over $2 billion. As we add the other regions on, obviously that targeted discretionary spend has increased. And it's in a number of areas across our profit and loss statement, in general and administrative overhead as well in brand building and in cost of goods sold and distribution costs and in other overhead costs within cost of goods sold.

And we're finding great opportunities for savings. In North America we've found opportunities within our distribution costs. We've put some of that business out for bid and identifying savings. We found savings within our people costs as well. We've changed a number of our people-related policies and saved millions of dollars. And in brand building also we are interrogating our brand building investment, both the working side and the non-working side as well.

Now, let me be clear, we are absolutely committed to investing in our brands. And you know we invest at industry-leading levels. But the model for building brands is changing, moving from TV media to digital media. And in some cases, we're investing in food and seeing an impact with the consumers. So our brand building in 2015 was down about 0.5 point to sales and in 2016 we expect our brand building to be relatively flat.

Our zero-based budgeting initiative also gives us the confidence in delivering against our long-term targets. And that $100 million savings is just the first tranche in North America. We expect more savings as we progress through the years and we'll add to that our international region savings as well.

This chart simply displays in 2016 an incremental $200 million of savings and we're working to create visibility in 2017 and into 2018. You can see from the Project K chart we have good visibility to how that will deliver over 2017 and 2018. And we have confidence from our zero-based budgeting initiative as well that we will be able to achieve these savings expectations.

And that's allowing us to generate strong cash flows within our business. We're converting net income to cash after capital spending at a rate around 100%. And over the past couple of years, we have been able to offset the incremental cash requirements required for Project K through our accounts payable initiative, supplier financing. We saw that in 2015 and I mentioned that on our fourth quarter call in 2016 as well. So we're seeing good results, unlocking cash from our balance sheet to cover this incremental initiative that we've launched. Over the long haul, as you'd expect, we would grow our cash flow in line with earnings.

This chart shows our core working capital as a rolling 12-month progression to net sales. And you can see over the past year we have taken more than 1 point out of that rolling 12 month percent to net sale. Obviously, our period core working capital percent to net sales is much slower. So this is the trend over the last 12 months. So, we've made great progress on this accounts payable initiative and we're looking at other areas to unlock cash from our balance sheet as well.

And that's allowing us to continue to return cash to our shareowners. Over the past three years, we've returned about $4 billion in cash to our shareowners. We do that through our dividend program and our share repurchase program. On dividends, we tend to work over the long term in the 40% to 50% payout ratio range. And recently our Board of Directors approved a share repurchase program that goes through end of 2017, and allows us to buy back $1.5 billion of shares over that time. For 2016, we have said that we would return about $700 million to $750 million.

Now in term of acquisitions. Obviously, we continually evaluate acquisitions to help us achieve our growth strategy. You can see examples of some of the things that we bought over the past years. So what's interesting to us, certainly, acquisitions in emerging markets that might allow us to build additional scale in those emerging markets or capability in those emerging markets, whether it be sales or distribution. The intersection of snacks in emerging markets as well is very interesting to us and we're also looking at natural and organic businesses across the globe. Obviously, we remain extremely financially disciplined when we are evaluating acquisitions for our business, because we want to make sure that we return to our shareowners.

So in summary, we are absolutely committed to our long-term growth targets and we have good visibility, as I said in 2016 and beyond as well. Not only do we have base productivity in the range of 3% to 4% but we have incremental cost savings programs that we've put on top of that and they are progressing well at this point in time. We expect to grow our cash flow in line with earnings and we're absolutely committed to profitable growth.

With that, I will turn it over to questions. Thank you.

Q&A

<Q>: Danny, you want to go first?

<Q>: I am struck by and it's not new, but by the amount of cost savings that Kellogg and most of Kellogg's packaged food peers are finding in, it feels to me like every time one of these companies presents or provides earnings, that they find more savings and more opportunities. You seem to have provided more detail on ZBB and the global opportunity there today. So it's great on the one hand, and I think it's fantastic and it's – but I guess on the other hand, my question would be, why was this not done years prior? And I know you can't speak for other companies, but as you look at Kellogg, these opportunities seem so vast. Why did we not 10 years ago take some steps to go down this road of cost efficiencies? Was it just more that these companies were more focused on the topline? Look, as you look back, what was the sort of obstacle to doing that years prior?

<A - John A. Bryant>: Maybe a few comments on that. First, it's worth remembering that we're also undertaking the largest restructuring in the company's history, so we're spending a fair bit of money to take some of those cost out. Zero-based budgeting program has been very eye opening for us in terms of challenging core assumptions. Now we would always say that we had a ZOG overhead type goal but when you challenge why you are spending in the first place as opposed to just keeping it flat year-on-year, creates all sorts of opportunity. And I think even as we work with our employees, they've actually come to the party in town, why do we do things that we do and can we do it more effectively and more efficiently? So, the good news is we have the opportunity, we are going after the opportunity that's what we're focused on doing.

<Q>: Thanks. I guess in terms of cash flow Ron, it's been – it seems – based at least on my calculations, it's basically been flat for an extended period of time and around $1 billion. And fortunately you found supplier financing to offset the cash costs associated with the charges. But when do you see cash flow starting to move up? Is that a 2017 or 2018 because I think you've already said 2016 is flat versus 2015. So when do you actually start to see cash flow improve?

<A - Ronald L. Dissinger>: Well, obviously, cash flow is a function of our earnings performance. And it's no secret that our earnings performance has been relatively flat over the past five years or six years. The good news is, we have to been able to offset that incremental cash requirement for Project K through our supplier financing initiative. And as I mentioned earlier, we'd expect to grow our cash flow in line with earnings. The fact that we have good visibility to growing our earnings consistent with our long-term targets, over time we should see improvement in cash flow as well, and we'll continue to look at other opportunities within working capital to unlock more cash from the balance sheet as I said.

<A - John A. Bryant>: And just one addition to that. Since the day the Pringles acquisition, there has been about a $0.5 billion of capital, to expand and set that business up for growth, so that has been a drag on the cash flow since the date of acquisition.

<Q>: I'd like to just ask a couple of things about Kashi. So, in 2016 the plans that you laid out, they seem pretty exciting. I have no idea about this 6,000 year old grain, and whether the thing tastes good or anything like that. So, I look at the slides and I just wonder what's the risk profile here that Kashi performs the way you expect. Kind of what's plan B if this doesn't work? What are you hearing from the Natural and Organic customers? Do you have wins on shelf? Is shelf space going to rise? Because I feel like we're going into this with expectations that are ironclad that Kashi is going to grow. And I'd just like to hear something concrete so that when we walk out of here and people say to me do you really believe the teff, what is the thing teff, that this thing is going to be the winner that you're purporting it to be? Thank you.

<A - Paul T. Norman>: A good question, David. Teff won't make or break our year, in Kashi. I do think several things that are important, fundamentals. If you look at our Cereal category, Kashi and K, as John said, have been the laggards, those both brands are back. Kashi is flattening out from a cereal consumption point of view. We're reinvesting in GOLEAN which is our biggest brand, with a pioneering great new food.

And therefore, I think we're well positioned. We are not losing the distribution we were losing over the past couple of years. The distribution losses were a big drag. Distribution losses have stopped, okay. And we're now about to reinvest in the brand, something else we couldn't do for the last two years because of the reformulation of all the foods. It wouldn't have been smart to invest when some of our core consumers are wondering why we're still not GMO-free.

So, we're back to investment as well. There are lots of pockets already of growth within the Kashi Cereal business in the natural channel and certain customers, big and small, where we're seeing the brand start to comeback, and in fact the brand is up in several customers, something I could not have said a year ago. So, the signs are there that it is coming back. Wholesome Snacks from Kashi is a different challenge. We are still in decline significantly and we require this innovation to step-up and perform. It is fabulous food, it tastes great, it's everything our consumer and our shopper wants. And it's up to us to lean-in and go for it.

Powders is new and different. It's going to be all incremental. And we know that that is a space that is growing rapidly and we have a right to play and a right to win there. So I think there's fundamentals, the core of our business, the cereal business is stabilizing and doing better, velocities are picking up. Wholesome, we need to turnaround and we've got I think visibility to that and then we've got accelerators that we're not even in today that I think places Kashi can play that will accelerate growth.

So it's not a Hail Mary pass, it's a structure – there's a set of structured thoughts behind how we get this business back to growth. Pastries is always going to be a challenge for us. I think we're doing the right things. How quick it all comes? Maybe a challenge, but we're not talking one year or another year here. We're talking a difference of quarter-to-quarter, how it comes back.

<Q>: I'll be quick. Andrew. Just had a quick question for you. It's easy in the old days when we asked about reinvestment, it was marketing and how high would it go as percentage of sales? And I guess I came away from the presentation and recent earnings thinking that marketing is probably at a pretty good place overall, maybe it's a matter of moving money around. But I also heard from Paul about investing in on-the-go capabilities and platforms and channels. So I just want to get a sense, you got a lot of savings coming through and largely achieved that earnings growth. Is it about the – is there still enough investment areas that will balance that growth or is there more savings to come to the bottom line is the basic question.

<A - John A. Bryant>: Yeah. Great question. As I said in the last quarterly conference call, we have plenty of fuel in the tank. I think it's how we spend the brand building, not how much brand building we have. Paul, anything to add for the North American perspective.

<A - Paul T. Norman>: No, I think we have the resources, it's a question based on return on investment prioritizing for the greater returns. I do think we need to – we looked at first the entire P&L to look to where we will invest – so we invested in food, people and capability as well, but I think brand building, I'll have to think putting money in the foods brand building quite frankly. It's not just because it sits in the A&P line, and great food is what drives a brand's premium in the market and our right to win.

Unverified Participant

All right, we'll cut it off there and head over to the breakout. Please again join me in thanking Kellogg for breakfast this morning.

John A. Bryant

Thank you.

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