Company Name: Kellogg
Company Ticker: K US
Date: 2016-09-07
Event Description: Barclays Global Consumer Staples Conference

Market Cap: 28,300.93
Current PX: 80.80
YTD Change($): +8.53
YTD Change(%): +11.803

Bloomberg Estimates - EPS
Current Quarter: 0.872
Current Year: 3.638
Bloomberg Estimates - Sales
Current Quarter: 3271.400
Current Year: 13058.889

Barclays Global Consumer Staples Conference

Company Participants

- Unverified Participant
- John A. Bryant
- Clive Sirkin
- Ronald L. Dissinger

MANAGEMENT DISCUSSION SECTION

Unverified Participant

Hi, everybody. If we can just find our seats, we'll kickoff our next presentation. Perfect. So, we're pleased to welcome again the Kellogg Company to our Global Consumer Staples Conference. In what has been an unrelenting center store malaise, Kellogg has been working to steer its portfolio from being more levered to weight management to be on more on-trend with consumers' preferences today.

In this vein, we recognize that near-term earnings power will likely be built through margin expansion. In the last quarter, Kellogg accelerated its 18% operating profit margin target by two years. But the margin expansion driven in part by Zero-Based Budgeting, Project K and revenue management. We appreciate that there are tough decisions being made, but believe they ultimately lead to a more balanced approach to growth and creating shareholder value.

With us today, to further discuss Kellogg strategy is Chairman and CEO, John Bryant, as well as CFO, Ron Dissinger, and Chief Growth Officer, Clive Sirkin.

And with that, I'll turn it over to John. Thanks for being here.

John A. Bryant

Great. Thank you, [ph] Andrew (00:54). Well, good afternoon, everybody. Let me start by referring you to our forward-looking statements document. Please take a moment to read this. Look at our published SEC filings as well on the standard risks and opportunities facing the company as we make our various forward-looking statements.

In terms of the agenda today, very simple. I'm going to give a high-level overview of our strategy. We'll spend most of our time this afternoon talking about our operating model. How we're going to expand margins and better position ourselves long-term for growth. Within that context, Clive Sirkin, our Chief Growth Officer, is going to talk about how we're investing back in our foods and investing back in our brands. And then, Ron Dissinger, our CFO, is here to talk about our margin expansion goals, our productivity programs, and our uses of cash, as we go forward. And I'll come back and wrap up quickly at the end.

As well as just taking a moment to think about some of the changes going on in the food industry today, it's probably more changed today than anytime we've seen, certainly in my history in the industry. We're seeing consumer's beliefs around food change rapidly. We're seeing how consumers consume media change, which also changes at how we have to build brands. As we go forward here, we're going to see increasing changes in how they shop, increasing penetration of e-commerce around the world. All of this provides great opportunities for us, so we need a position ourselves to take advantage of.

At the same time, there is a growing expectation and belief that we share, there is an opportunity for these large food companies to meaningfully earn higher operating margins and sustain that over time. So, we put together a strategy that addresses both of those opportunities. Both, how we position ourselves for long-term growth, and how we position ourselves to meaningfully improve our operating margins, and sustain that. We call that our 2020 Growth Plan. We went through this in some detail in Chicago last year at our Investor Day. So, we're not going to spend a lot of time on this. But we're going to talk about more how we operationalize it, how we make it a reality.

Within this strategy house, so you can see the – top of the strategy house, that operating margin expansion is a central element of what we plan to deliver as a company. Let's talk about some recent announcements we've made in that area. At our last quarterly conference call, we announced the intention to increase our operating margin by 350 basis points from 2015 to 2018.

Two primary ways we're going to do that. First, we have unprecedented visibility in the future productivity programs, we have our normal 3% to 4% annual savings goal, we have Zero-Based Budgeting, and we have the largest restructuring in the company's history, Project K. All that gives us unprecedented visibility into productivity and earnings, and Ron will talk more about that later. In addition, we have an opportunity to improve our price realization as a company. I'll come back and give you a few slides on this to try to bring that to life for you.

Those two elements, driving productivity, driving price realization particularly in the developed markets, we believe, is going to help us primarily expand our margin. At the same time, we're investing back in our foods, and we're investing in our brands. We're investing in our brands in different ways, as you recognize that the way you build brands is changing in our industry, and Clive will talk about both of those.

If you take these four elements and you put it on a virtuous cycle you get our Volume to Value wheel. For those of you who have followed the company for a long time, you'll remember our Volume to Value wheel back in the 2000s. As with any virtuous cycle, you can jump on any place. Obviously, as a food company, it starts for us with having on-trend food and packaging. We then can talk to consumers about that in a relevant way for them in terms of how you build brands these days, do both of those as well, will help us drive our sales growth, with some price realization and outstanding productivity we get gross margin expansion and the productivity programs also keep our overhead under control, to enable us to both invest back in our brands, invest in our food, and deliver sustainably higher operating margins as a company.

Let me start by talking about our sales growth. When we gave guidance about increasing our operating margin by 350 basis points, we said our sales growth was likely to be flat through 2018. To be clear, we have an aspiration and expectation internally that we will do better than that. But we wanted to give you conservative and pragmatic guidance that delivering the 350 basis points of margin expansion is not dependent upon driving sales growth. It's driving improvement in productivity, and driving an improvement in price mix.

As you think about sales growth, you can kind of break into price mix and the volume growth. In developed markets, we think there is a big opportunity for us to drive price mix. Obviously, in emerging markets, we'll continue to drive volume. Let me talk a little bit about why we say that for the developed markets. This is the comparison of our volume performance and our price realization relative to our peers, just take 2015 as one example. In 2015, our volume performance was in line with our peer group, but our price realization was slightly negative and our peer group was about 180 basis points positive. We intend to increase our price realization by at least 100 basis points a year.

Now, we're not going to do that just by taking pricing and going past key price thresholds, or by just taking trade spend out of the marketplace and letting volume drop. We're going to find smart ways to achieve price realization every year. I'll give you a few examples of how we're going to do that. One, trade optimization. We increased the future price points on Cheez-It this year and the business is performing well.

Linking price realization to innovation and renovation. We added more Red Berries to Special K, we took a price increase, and the consumers are responding positively to that. Getting the pack-price architecture right. For the large franchise like Special K, you have large packs, medium packs, small packs. We were seeing some negative SKU mix within that, we changed the better-buy relationships across those pack sizes, and we're seeing a significantly better SKU mix as a result of that.

And then finally using packaging to get to different occasions and to reframe consumers' price expectations. If you think about a box of cereal, most boxes have about nine servings to 10 servings in them, and they retail for $3 to $4 each. So, roughly $0.30 to $0.40 per occasion. When we go to Cereal-in-a-Cup, we can get to a single-serve opportunity and that product retails for $1 to $2 each.

So, by changing packaging, we change the occasion, and we change the price expectation which enables us to get higher price realization. These are just three examples, obviously there is many more. You will see a much greater focus from us on a program that we're calling revenue growth management to driving out across the company to improve price realization throughout the organization.

Of course, in emerging markets volume is a much bigger component of our growth story and you're seeing us invest back in emerging markets. In the last year, we've made two acquisitions in Egypt, the largest cereal company and the largest cookie cracker company. Both businesses continue to do very well. We continue to do well in China with our joint venture with Wilmar, we are seeing good 10% growth. We're also doing well in Russia, a business we've had for several years. We're seeing high single-digit growth there.

And probably most exciting for us is our investment in West Africa, which is growing just under 30% so far this year, even though it's a very difficult environment we're operating in. So we're excited about our emerging market footprint and you will see us continue to invest more in the emerging markets as we go forward. And obviously, in this part of the world, it's a combination of price realization and volume.

So, to continue our discussion of our Volume to Value model, I'll have Clive Sirkin, our Chief Growth Officer come up and talk about how we're investing in our brands and how we're investing our food. Clive?

Clive Sirkin

Thanks, John. Good afternoon. I want to talk about on-trend food and packaging, and the difference here relative to the first version of the Volume to Value yield that John referred to, is impact. So frankly, a fewer big events of impact, and not just impacting market, but importantly impacts on margin. This calls for widening our lens not just in terms of product innovation, but packaging innovation and commercial innovation. And importantly, as John referred to, in revenue growth management, ensuring that we deliver the right product, in the right format, in the right channel to drive value that consumers will pay more for.

So, let's talk about how are we doing that. On a fundamental level, the place we start is renovation, and base level renovation to get our food into the consideration set. And this is focused on taking out negatives. The primary focus for us right now is sugar, sodium and taking out artificial colors and flavors. We're making great progress against sugar and artificial colors and flavors, and we've passed our goals that we set for ourselves in terms for sodium reduction. And while the removal of negatives is important and fundamental, as I said, to get into our consumers consideration set, nothing beats the addition of positives. Ultimately, when you add back what consumers love, they're willing to pay for it.

John talked about Special K's Red Berries, here we added back Red Berries. We were able to realize price, and we drove the business. In the most recent 52 weeks their SKU is up 3%. Nutri-Grain is another example. This is our biggest brand in Australia, and it's positioned around the Iron Man energy and strength positioning. Here we added in protein, at the same time we took out sugar, and we earned ourselves a four-star rating in the market, and the consumer rewarded us, consumption up 10% year-to-date. These are just three examples of how just simply adding back what consumers value, what consumers love about the brands, enables us to realize pricing and expand margins.

And moving beyond that, we innovate to expand, whether it's innovating positioning, we're innovating into new segments, we're innovating into a new occasions, the return is there. As you're well aware, Special K has been a significant drag on our performance, and in response, we've repositioned the brand against strength. When you look at the innovation that we put into the Special K Nourish behind this new positioning, not just in cereal, but also in snacks you're starting to see returns in markets where we've done this, notably Canada, U.S., and Australia.

Moving on to Granola. Granola is a thriving and vibrant segment in many of the markets in which we do business, and we go-to-market with preferred food, of note in Europe, behind Ancient Grains we go-to-market with preferred food, and we're seeing early signs of growth behind that. And similarly in Mexico with Granola with quinoa.

And lastly, Cheez-It Grooves. Here's a great example. Three years ago, we launched Grooves to get into new consumption opportunity with meal accompaniment, something we weren't playing in. Now, with the course of the three years, we've continued to ran up against this platform sustaining at making stick, and we're in our third year now and the franchise is up 15%. Just some examples of the kind of innovation you should expect to see across the board.

Moving beyond that, there are certain brands in our franchise that have an accountability and responsibility to lead trends, and be ahead of the trends, and obviously Kashi is one of them. And you look at what we've done at Kashi in California, completely refreshed the line. All of the products are GMO certified, GMO-free certified. We're moving aggressively into Transitional Grain Certification. Both of these involve an investment in food, but the consumers value it and are willing to pay for it.

If you go into leading plant protein, our protein power shakes, cereals and bars that we've recently launched is an example of how we're pushing the bar over there. And also pushing the bar in terms of ingredients, more exotic ingredients, more forward leaning, more trendy ingredients. Teff is an example frankly of staple in Ethiopia, but not widely used outside of the region, and it's the hero grain in our Teff Thins and we've used local Ethiopian recipes to inform the food design. So real refresh around Kashi, pushing us to get ahead of the curve and lead the trends.

If you move beyond food innovation to package innovation, we're doubling down here as well. MorningStar is a great example, where we've moved to receivable pouches, significant reduction in packaging material 38% to 40% reduction, and we're providing consumers the convenience of resealability and a better consumer experience of the freezer burn.

Similarly, in bags in Latin America, we're offering consumers the resealability convenience feature, which drives freshness. And importantly, as we drive on the cost of packaging, we're able to enter the market at lower price points and expand our consumption base, and we're seeing the business behind it, particularly in Puerto Rico, Mexico and Colombia.

And then, of course, John referred to formats within – in channels, and predicted a single-serve and there's a lot of innovation in packaging going on behind that. And lastly the oldest trick in the book, impact the shelf at the point of purchase. And our time with Dory, the movie, where we had 3D packaging which not only drove increased consumption, we're able to drive our pricing and expand margin behind it. Again, just some of the examples that we're expecting our brands to be driving day-in and day-out.

Moving beyond this, to commercial innovation, just a few examples of this, our launch of eighteen94, a VC Fund provides us the opportunity to open up innovation, get a much more external view of innovation and we expect that to drive the agility and the culture of innovation in the organization.

On Bear Naked Custom, and I'm presuming pretty much everyone in the room been on bearnakedcustom.com on multiple occasions. But a great example, small footprint, but the way to innovating the business model direct-to-consumer, an emerging e-commerce channel where we're gaining fast, learning through transactional learning that drives our food design.

And similarly in the New York Café, great opportunity to drive real-time transactional learning, getting closer to our consumer with testing that's more proximate of the commercial outcome. So as you look at innovation, fundamental removal of negatives, renovating for more, adding in what consumers want, broadening through innovation, driving into packaging, and then looking at commercial innovation.

As we move onto brand building, the big difference here, historically, we've always believed in the power of building brands, and we've invested ahead of our peers. The previous version of this called for increase the brand building ahead of the rate of sales growth, and we continue committed to be building our brands, but the real opportunity here is driving return on that brand building investment.

Now, you're all aware of the paradigm shift and the seismic changes the digital economy is driving. The rate and scale and depth of change that we experience is unprecedented, frankly we should expect that to accelerate. To us, we see there is an incredible opportunity, an opportunity to get access to data and importantly gain a much more proximate, intimate with relationship with our consumers allowing them to participate more actively with our brands. And the net of that, is our ability to drive the return on investment of our brand building.

Now, as we think about ROI of our brand building investment, it starts with the fundamentals, portfolio management. We've been much more choiceful about where we place our brand building investments, on our biggest brands, our fastest growing brands and the brands that return the greatest contribution. This is critical to how we invest limited funds in driving return.

We've constantly been driving efficiencies through ZBB and we will continue to maintain that pressure, the efficiencies on our media buying, efficiencies on our agency model, ensuring our agency model is fit for purpose. And importantly, as we move more and more into content, efficiency in our scale content capability.

Beyond that, we're making investments in the digital economy. First and foremost, you'll see a shift in our digital media spend. In North America, we're north of 40% and you should expect that to grow. And in the international, we're about a third, and you should expect that to go north. But moving beyond that, because frankly that's an outcome, our social listening responsiveness, we are doubling down on our capability and competency and talent in the organizations on the ground, driving our ability to be much more agile, frankly real-time in our social listening responsiveness, again to drive a more intimate and proximate relationship with our consumers, and getting them to participate with the brand.

And lastly, an area that I'm most excited about is ROI, and marketing mix modeling, analytics. We're challenging the model. The historical model is that you would do ROI analytics and marketing mix modeling retrospectively with a rearview look. So you look at post-program to see how well we did and hopefully gain learning that you can project going forward. The reality is, we shouldn't be held to that and we're driving significant investment into real-time with certainly just-in-time ROI analytics and marketing mix modeling that allows us to optimize our programs while the program is in flight, and that should drive a high return on investment of our brand building.

Now, clearly early days in this transition and evolution of the brand building model, but here are some of the examples we're starting to see that you should expect from us. So take the Olympics in Rio, typically, we would launch with high production value, flashy, thematic advertising, TV-led. In this instance in Rio, we launched principally with a social and PR-driven campaign, and the reach and earned media was unprecedented and we're on track to have the most effective Olympic sponsorship that we've ever had.

Moving on to Keebler. We have not supported Keebler in a while and there's a whole generation of consumers who don't know who Ernie is and haven't grown up with the hallow tree, rather than lead with a TV-based campaign, we launched with a social and mobile campaign and we reached reach and frequency levels that you would typically expect from a TV-led media plan, at a fraction of the cost. But frankly, that doesn't matter unless you get the results. And the reality in this campaign in the four months that we've been on air, we've seen more weeks of base business growth than we saw in the entire prior year.

And lastly, in New York Café, one of my favorites, an opportunity for transactional learning that I talked about, but importantly, a different way to present ourselves to consumers and change their perceptions and experience of the category. Most notably, we've been able to drop significant earned media. We're closing about 1.3 billion impressions, and to give you sense of that that's roughly nine or 10 Super Bowl ads depending on whether the Patriots are in the game or not.

So we're clearly making progress over here, we're doubling down on our investments, in our capability, in our tools, in talent acquisition to get after the return on investment and effectiveness of our brand building. We remain as ever committed to investing in our brands. The level of investment is not in question. We're demanding a much greater return on our brand building investment going forward.

And with that, I'm going to turn it over to Ron Dissinger our CFO. Ron?

Ronald L. Dissinger

Thanks very much, Clive, and good afternoon, everyone. So the actions we are taking to innovate and renovate our foods as well as the impact of our brand building investment should allow us to return to profitable sales growth.

In addition, you heard John talk about revenue growth management focused on price mix, that should also contribute to that foundation. But the fact is, we also have unprecedented productivity programs including our base productivity where we target 3% to 4% of savings across cost of goods sold, Project K and Zero-Based Budgeting as well. I'm going to take you through our sources of margin growth, and as John said, I'll wind on uses of cash at the very end as well.

So this chart shows our expectations on sources margin over the next several years, getting us to the 18% margin, a 350-basis point improvement versus 2015 levels. This is comparable and it excludes Venezuela as well. You can see our guidance in 2016 implies that there is some margin expansion in 2016, but that margin expansion accelerates as we move into 2017 and 2018. In terms of investing in food, our communicative for 2016, we're investing about 50 basis points to sales in our food based on the innovation and renovation work that we're doing. You can expect similar levels as we proceed through 2017 and through 2018.

Now, the headwinds bar includes inflation-related items, input inflation across the broad market basket of things that we procure. It also includes factory, labor, logistics type inflation. Now, the bar is fuzzy, that's not the IR guide playing a trick on me, it's because I have good visibility of 2017, but I don't know what 2018 will hold, particularly in terms of exchange trade commodities or other inputs.

On revenue growth management, we expect to generate greater than a point of improvement out of revenue growth management. These are our place and mix opportunities that we're focusing on within the business. I think the way to think about these two bars though is that we expect to create a net benefit to our operating margin over the next several years. So, if input inflation is a little bit lower, we might price a little bit less. If input inflation is a little bit higher, we might price a little bit more. Makes sense?

Now, from a Project K standpoint, this initiative remains on track, and it is very consistent and in line with what we communicated frankly when we launched this program at the end of 2013. Run rate savings in 2018 are expected to get to $425 million to $475 million. The investment associated with generating that savings remains consistent, remember pre-tax, we communicated $1.2 billion to $1.4 billion. So, we're on track with Project K. We have some savings that comes through 2017 and 2018 as well.

The new item that we recently communicated on our second quarter earnings call, we elaborated on the savings associated with Zero-Based Budgeting, and that also was contributing to our operating margin expansion. And let me talk about that a little bit more. So we communicated in 2016 an expectation of $150 million to $180 million worth of savings. So, we've really kicked this program into gear mid-2015 in our North America business.

We interrogated 15 to 20 different cost categories within our business across cost of goods sold, brand building and overhead. We identified the savings over the next several years. For 2016, of course, we embedded them in our budget. As we came through the first part of 2016, we delivered according to our objectives. So, it remained on track and it gave us the confidence in how we updated our guidance for 2016.

At the beginning of 2016, we took that approach that we're applying in North America, and we cascaded that across our international locations. Again, interrogating 15 to 20 different cost categories, identifying the savings objectives over the next three years. That gave us the confidence to raise our target for 2016, which originally was about $100 million worth of savings to $150 million to $180 million. And it also gave us the visibility for the full program to communicate the $450 million to $500 million worth of savings.

Now, this is on interrogating around $3.5 billion to $4 billion worth of discretionary spend in our business. And I'd remind you that is on top of the savings we're generating from a base productivity standpoint and what we're generating in Project K. And that's why we say, we have unprecedented savings flowing through our business at this point in time. This is what gives us the confidence as we look to 2018 along with the other initiatives that we're undertaking in the business to hit the 18% operating margin goal.

Now, this is the slide that we showed on the second quarter earnings call in terms of our guidance for 2016. We now expect our sales to be approximately flat in 2016. We do still expect to be towards the high-end of our operating profit range, and of course, our earnings per share expectations as a result of where we're delivering operating profit are in line with what we communicated on the second quarter call.

Now, building on this, as we look at 2017 and 2018, we also communicated on that call that we expected sales to be relatively flat over the next several years. But we said, that's from a modeling standpoint. We fully have an internal goal to drive sales growth over the next several years, but we modeled flat sales and the ability to achieve the 18% operating margin. When you look at the operating margin expansion then, that's indicated over the next several years, it implies high single-digit operating profit growth over the next two years, well above our long-term growth targets.

Now, we've refreshed the Volume to Value wheel, but on Manage For Cash operating principle remains exactly the same as what we previously have been applying. With the accelerated operating profit growth, you would expect accelerated net earnings growth. We've been very disciplined on core working capital, and I'll show you a slide in a minute on the progress that we've made on our core working capital. We remain disciplined on capital spending as well. We fully expect to get down into that 3% to 4% capital spending range as a percent to sales over the long-term.

Now, over the past couple of years with Project K, and also with other initiatives, our growth initiatives around Pringles, we've communicated a 4% to 5% range. But we've been able to manage more towards the low-end of that range. So again, we fully expect to come into that 3% to 4% range on capital.

From a financial flexibility standpoint, our goal is to remain strong investment grade. We periodically evaluate and have made acquisitions within our business. And in order to maintain our liquidity position and financial flexibility, we may pull back on share repurchases. Obviously, that depends upon the size of the acquisition. Small bolt-ons, we may not, something a little bit bigger, we may reduce our share repurchase program. Our accelerated earnings and our disciplined approach to our invested capital should allow us, and you would expect, we will increase our return on invested capital over time.

So this chart shows our progression on core working capital. This is just over the past year and a half, we've taken over 2.5 points as a percent of sales, and this is on a rolling 12-month basis, out of our core working capital. It's largely based on our accounts payable initiatives, supplier financing, essentially extending our payment days to our suppliers. We have plans for other programs to improve this metric further and unlock cash from our balance sheet. The work that we've done over the past two years or so in our core working capital has largely allowed us to fund the incremental cash associated with Project K.

And last, as we look to returning cash to shareowners, we remain fully committed to returning our cash to shareholders and we have a long history of doing that. Over the last three years, we've returned approximately $4 billion of cash to our shareowners through our dividend program and through share repurchases as well. We understand the importance of our dividend to our shareowners, we have an attractive [ph] yield (29:45) versus our peers, and our payout ratio is just above 50%.

So, we have continued to increase our dividend despite relatively flat earnings as a result of the confidence in our earnings potential and our cash flow generation as well. And at this point in time, we're still working our way through a $1.5 billion share repurchase authorization granted by our board that takes us through the end of 2017.

So, based on the productivity programs and savings programs we have in our business, the work we're doing around innovation and renovation, and investing behind our brands and revenue growth management, we have confidence in achieving our 18% margin goal by 2018.

With that, I'll turn it back over to John...

John A. Bryant

Great. Thanks. Thank you, Ron. So, in summary, we have a very clear strategy that will help us navigate the changing environment and deliver sustainable increases in operating margin. We're going to operationalize that through our Volume to Value model. This is a model that we use inside the company, same discussions that Ron and I were going off to see our business units. We have the same discussion about that model, what they're doing against that model, and we use it also with you externally as we go forward here. And we have outstanding productivity visibility which gives us outstanding earnings visibility as well towards that 18% operating margin goal by 2018.

So with that, I'll hand over to [ph] Andrew (31:09) if there are any questions you might want to ask at this stage.

Q&A

<Q>: Thank you. So, John, I guess first-off, it's been a good many years since we, at least, in the investment community have heard the Volume to Value terminology. I guess John Renwick and I are old enough to remember the original terminology. But even though you – I guess you've been calling it the sustainable growth wheel the couple of years, and now we're back. So, I first wanted to get sense of just, why the shift, even if it's not internal, why that shift externally?

<A - John A. Bryant>: Yeah. There are two changes here, I mean one is, we've updated the model to reflect the current environment we're in, and the importance of investing back in our foods. If you look at the old model, what it said, 15% of sales from innovation over three years. It was more weighted – more focused on the weight of activity and not enough focus on renovating the foods to ensure they stay on-trend. So there's some real changes within the wheel.

But also, why call it Volume to Value, we could have called it sustainable growth. Our business, we could call it sustainable growth? There is a little bit of tension in calling something Volume to Value. Obviously, volumes are not necessarily bad, they always send a clear signal in the organization, that we want to chase on top of volume, we don't want to rent volume, we want to ensure that we're going after the share of wallet rather than share stomach. Those sorts of orientations, which are important messages to put into the organization.

<Q>: In one slide, you talked about the effective pricing and how Kellogg has lagged peers in, I think it was 2015. I guess what's the diagnosis of why you've lagged, and is there anything structural in your portfolio, your categories, your sub-categories, within your key categories maybe that caused for some of that lagging to continue?

<A - John A. Bryant>: There've been two key drivers of why we would been behind the peer group on price utilization, I think both of those are getting behind us. One has been a brand issue, Special K is one of our highest price mix brands, as that brand became softer, obviously it wore down on the portfolio. That brand is turning all their key markets. We're feeling much better about position with Special K, there should be lesser drag as we go forward.

The other is, what we call our core four Cereal markets, also some of the most profitable and highest price realization markets. Those core four were down significantly a few years go. Today, three of them have stabilized, Australia, U.S and Canada, and excluding only the UK that we're still working on to get back towards a flat-type position. So I think for that reason too that would be less of a headwind, so the things that have been weighing on us as much as we go forward, and that real focus again on price realization and avoiding discussions of volume share and volume type discussions that can lead you to do things that are not helpful for long-term economics of the business.

<Q>: How much of some of the actions around revenue management, were there naturally some tension with customers and sometimes some consequences that maybe you're willing to accept in return for some of the revenue management benefits? How much of the external sort of flat sales growth is reflecting some of those potential volume consequences as you go through some of these actions?

<A - John A. Bryant>: Yeah, our intention here is to drive the price realizations smart way, okay, so there ways you can do this it causes conflict, and there is ways you can do this that get around conflict. If ultimately we stay consumer focused and we add value to the consumer and get the consumer to pay for it, that's the best way for us to achieve price realization. If we are adding value to the consumer, and they're not prepared to pay for it, it's questionable, if we're truly adding value or just adding cost. So there's some thesis that we can do here, that we think we can mitigate the impact with our retail partners. And obviously, our retail partners want to improve their margins as well. So, this is a cooperative process, not a individual company operating in isolation.

<Q>: I'm going to see if there is one in the audience. Yeah, we've got one right back there.

<Q>: Thanks. You mentioned the improvement in working capital that you've been able to produce over the last six quarters or eight quarters, a number of other companies today in your space have mentioned similar improvements, who are the net losers in this, who is on the other side of that that's taking much longer terms on working capital?

<A - Ronald L. Dissinger>: Clearly, what I said was, we extended our payments to our suppliers. At the same time, we provide a program to those suppliers to go out and access their cash a little bit earlier at a nominal interest cost. For some suppliers actually – and it's weighted on our credit rating, so for some suppliers actually that's a net benefit for them, and it gives them the flexibility to get their cash perhaps even earlier than the way we were paying them before we went on this program.

<Q>: Anything else from the audience? All right, may be just one more in here. U.S. Cereal category, clearly we've come a long way from the minus 4%, or minus 5% declines we were seeing. It looks like we're heading in a positive territory of category growth, maybe it's tailed back a little bit, as have a lot of categories, I don't if it's related to that. But maybe just an update on where you see the Cereal category right now? And then within that, Kashi, I know this is a big year for Kashi in terms of what you're expectations are, it's the last big brand that you really want to get on the right track, where are we on that?

<A - John A. Bryant>: Yeah. So, [ph] Andrew (36:18), we feel very good about the progress in the Cereal category, as you say from where we were, we're now down about 1% year-to-date as a category, with holding share at a Kellogg level, Kashi is also holding share this year. So, it's a significant improvement in the performance of our business over the last couple of years. I have every confidence that we'll get the Cereal business back into growth, but into very modest growth. This is not a high growth category by its very dynamic. Look back across 2000s, we grew our Cereal business in dollar sales about 3% to 4%, below that growth is a price mix game. It's not a big volume growth game, as you think about something like U.S. Cereal.

On Kashi, we've invested back in the food. We're seeing the business do a lot better particularly in Kashi Cereals, there is some parts of Kashi that we're not going to try to continue to invest in, so some parts will continue to fall away, other parts are still work-in-progress, at the wholesome snacks element, but that brand is very strong, we're seeing good response to the innovation that we have innovated, and we have confidence that business is getting back on track.

Unverified Participant

Okay.

John A. Bryant

Thanks very much.

Unverified Participant

Let's go over to the breakout room, and thank you for attending.