

Company Name: Kellogg  
Company Ticker: K US  
Date: 2018-11-13  
Event Description: Investor Day

Market Cap: 21,674.94  
Current PX: 62.46  
YTD Change(\$): -5.52  
YTD Change(%): -8.120

Bloomberg Estimates - EPS  
Current Quarter: 0.902  
Current Year: 4.324  
Bloomberg Estimates - Sales  
Current Quarter: 3253.313  
Current Year: 13548.765

## Investor Day

### Company Participants

- John Renwick
- Steven A. Cahillane
- Maria Fernanda Mejia Campuzano
- Amit Banati
- Peter Rahal
- Chris Hood
- Doug VanDeVelde
- Monica H. McGurk
- Fareed A. Khan

### Other Participants

- Kenneth B. Goldman
- Michael S. Lavery
- David Cristopher Driscoll
- Robert Moskow
- Jason English
- Bryan D. Spillane
- John Joseph Baumgartner
- Pablo Zuanic
- Rob Dickerson
- Alexia Jane Howard
- Eric J. Larson

## MANAGEMENT DISCUSSION SECTION

### John Renwick

All right. Can everybody start making their way to their seats? Believe me, I want you caffeinated. I want you filled up with cereal, but punctuality here is important. And where is Peter?

Okay. So, thank you for braving the rain today. Thanks for coming out here. I do have some housekeeping items that I want to make sure we cover. But first, this is an event that we try to have every three years or so. It actually makes a very effective bookend with CAGNY this year. If you recall, that's when we introduced the new CEO, a new strategy deployed for growth. And now here we are at the end of the year giving you an update on the tangible actions, investments, and results of that effort. So, it makes perfect sense to finish the year with that.

A few things. In the back especially, it'll get a little difficult to see up here. You've got those side screens, but also if you want, and I know you guys are no stranger to your tablets and phones, the slides are on our website. So you can maybe see a little closer there. Efficiency is going to be the name of the game. We're sensitive of your time. So you'll notice when I get to the agenda that there is no formal break, okay? It's really on your own. There is coffee and tea for the entire time. There are delicious, unbelievably delicious Kellogg products out there to snack on. And there are only two bathrooms. So, that's why we have to make sure that you do this on your own time. Don't tell anyone, just get up quietly and use the facilities.

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Webcast also means that when you are asking questions, and we will have Q&A sessions at the end of each of the three sessions, you ask your questions pertinent to those presentations of that section and you wait for the microphone, so that people on the webcast can hear your probing questions.

I am required to talk about forward-looking statements, but first let me do the agenda. We have three sections like I said, each followed by a Q&A. The first section will have Steve give some overview comments and address some immediate issues that are top of mind and then we'll talk about the portfolio and what we've done to the portfolio, both in terms of emerging markets and we'll give you an example of the developed markets' white space in the form of RX.

The next section will all be about the developed markets and what we're doing under Deploy for Growth to invest in getting growth into those markets. And then, finally, we'll have a section that'll have a little bit on capabilities. We'll use e-commerce as a great example of those capabilities and then get into the financial outlook, before Steve wraps it up. So, that's the agenda.

Now, I am required by the lawyers to make sure that you are fully aware that certain statements made today, such as projections for Kellogg Company's future, are forward-looking statements. Actual results could be materially different from those projected. And for further information concerning factors that could cause these results to differ, please refer to this slide number 2 in your presentation as well as to our public SEC filings.

And so, with that, let me turn the podium over to Steve Cahillane. Steve?

## Steven A. Cahillane

Thank you, John. Morning, everybody. Let me thank you as well, as John did, for braving the elements and coming to our Cereal Café. This is normally open to the public and I invite you to talk to Anthony and team about kind of the experience we're having here. We get great traffic. We get great traffic after school. 30% of cereal, as you may know, is consumed out of breakfast that happens here each and every day.

I'm excited to be with you today to talk to you about our Deploy for Growth strategy and give you a check-in on exactly where we are with the strategy. We always set this up as a bookend, as John said. We had the CAGNY presentation where we outlined for you exactly what we were going to do, how we were going to do it and why we were going to do it. And then we had this bookend here to check-in really. And obviously, you saw last night, we had a fair bit of news that we want to really walk you through and unpack for you.

But we're excited about where we are. We're excited about Deploy for Growth because we believe we set up clear priorities. We're taking deliberate actions. And again, we'll take you through those in some detail. We'll also have Q&A around that. And I know just from before the meeting started, there's a lot on your mind that you want to talk about. And we're making big investments, we're making big investments in our business, in our future and in our growth opportunities.

And if you look at where we are on a continuing basis, you may have seen slides that looked like this before, but we really are on a journey. And at the beginning, it was about a real reduction in our cost basis. And so you can think about Project K, you can think about the implementation of ZBB, some really fundamental transformational work against our cost basis, which was very necessary and I think done extremely well by this leadership team and by my predecessor, to really put us in a position where we are today, which is investing in our brands and our capabilities.

So we're spending more against our brand building, significantly more on a year-on-year basis than we have in the past. We're investing in pack formats and we're investing really ahead. We're establishing demand ahead of really our capabilities in some ways, which we'll talk about as well, but we're really excited about what that's giving us in terms of on-the-go consumption moments and really establishing our brands more firmly with our consumers each and every day.

We're focused on commercial execution, we'll talk more about that, as well as portfolio shaping. All this is designed to deliver more sustainable growth over time. And you've heard us talk about this in the past, it's about ultimately reaching

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that balance between top-line growth and profit growth. So we are not only about top-line growth. We're not only about margin expansion. We're not only about cost reduction. We're about a balance between all.

Ultimately, you've heard me say before, getting to the algorithm that we're shooting for that we outlined at CAGNY fundamentally requires that we get to top-line growth. It's the most important thing that we need to do as a leadership team. And I'm excited to talk to you about where we are today because, look, when you're in a business like ours, the hardest thing to do with big mature brands is go from a point of no growth or even decline to top-line growth. And I can tell you that based on 30 years of experience in businesses like this.

So, if you look at this chart, you can see in 2014, 2015, 2016 and 2017, the top line of our business declined each and every year. Now, I've heard some criticism that goes something like, well, you guys are investing a tremendous amount of money in marketing to eke out very modest organic growth, like, a couple of basis points of organic growth. What I would argue is that is fundamentally not what we've been doing. We've been making that investment to get this turnaround from a decline of low-single-digits back to stabilization and even some growth.

So it's the delta of what would have been potentially compared to where we are. So, over time, you're not going to get to growth unless you can get a turnaround. So we have done some tremendous heavy lifting in terms of getting to the beginning of our algorithm by establishing top-line growth. We've re-established brand messaging for many of our brands that were dark. New product launches, which require investment, we've been doing, we'll continue to do in 2019. We're excited about some of the international expansions and we'll talk about the developing markets and what we've done in a number of those, as well as capability developments.

So the bottom line is we've been in something of an investment phase this year. So, again, if you go back into 2016 and 2017, all that hard work that was being done helped establish our cost base and actually got us to OP growth. But you've heard me say before that the cost basis is a finite thing and growth is infinite. The type of business that we were running in 2016 and 2017 is not sustainable over time, unless you get the top line growing.

So this year has been about driving those investments into the brands and stabilizing our top line. And we have not achieved the robust OP growth that we aspire to in the future, because we've re-established that top-line momentum that is so important.

As you look to 2019, we look to improve on our top line, to continue to improve on our top line, which will require investment and therefore, as you think about our bottom-line performance, it will likely lag somewhat the improvement in our top line. Although it's important to note, and I know everybody always wants to talk about specific guidance, but we have a process, we have a governance mechanism in our company, we have a budget that gets approved by our board in December, and then we come to you when we post fourth quarter results in February with specific guidance for 2019, and that won't change. So we won't give specific measurable precise guidance until we get the board's approval on the budget.

But it looks something like this because we're investing to get to our long-term algorithm of 1% to 3% top-line growth, mid-single-digit OP growth, which drives 6% to 8% EPS growth and, ultimately, gets to total shareholder returns that can be double digits. That's the algorithm that works in our business and that is the journey that we're on.

So, again, we could probably do a bit of a mea culpa in terms of this year and saying, we wanted to deliver more in terms of our OP performance. We did. But faced with the choice of continuing the momentum in the top line of the business and investing in that, that's what we chose to do because it is hard work to get a business like ours to return to top-line momentum. And we're seeing that momentum and we'll unpack that for you exactly where it is and, ultimately, we're quite confident that leads to the type of algorithm that we talked about at CAGNY.

So, deliberate actions I talked about, we break our strategy into two fundamental areas, where to play and how to win. And if you think about where to play, we talk about winning through occasions. We play in big relevant categories that are important to our retail partners, high household penetration, but in many ways the way we approach this needed a change in mindset, so a change in investment, a belief that these categories can continue to grow.

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We play big in snacking, but we were under-indexed in the on-the-go occasions. And so you've seen us invest in that. As well as health and wellness, and we'll talk about today some innovations that we're excited about in the health and wellness space that we will invest in, because at the end of the day we're one of the original health and wellness companies. So, really focusing back on our occasions and fundamentally asking ourselves where we have the right to win was very important.

Also, shaping a growth portfolio. So it's important to talk about some things here because shaping a growth portfolio is about allocating your resources in the right places, right, not a peanut butter spread across all, but really focusing where we have the right to win. And this includes some white spaces where you've seen us invest in, which includes things like RXBAR, which Peter will talk to you about in just a little bit, as well as emerging markets which are great opportunities for us which Amit and Maria Fernanda will talk to you about as well. And it also includes divestitures as well as acquisitions.

And so we made a big announcement last night about our cookies, cones business, and why we believe that a different owner may actually have a better opportunity to drive that. And I think one of the best examples I could give you of an example of this is when the Pringles business was with its former owner, it didn't do particularly well because it wasn't seen as a strategic asset for them and it wasn't really part of their strategy going forward and therefore it did not do particularly well.

Well, when we bought it and brought it inside and it became a focus category for us and we invested in it, it has done extremely well. And so, as we invested in some of our cookies business, we saw them start to respond. But, look, at the end of the day, we're much more focused on things like Pringles and Cheez-It and some of our real power brands.

And so we see a real opportunity to focus our portfolio and explore opportunities for this business outside, and it will improve the growth algorithm of our business. And ultimately, when you sit down with customers, you want to be growing faster than their categories. And aligning ourselves against the growth opportunities and investing where they are is very important.

So, emerging markets I mentioned, emerging markets are part of shaping a growth portfolio for us. And I'm not sure everybody always particularly really understands how important these markets have become for us. So, if you look at this chart, in 2012, it was a fairly modest portion of our business. Fast forward to 2018, fundamentally different, right? So, nearly 20% of our portfolio now in emerging markets, high-growth emerging markets. And again, I don't want to steal any thunder from my colleagues, but we've got some very exciting things to talk about when we talk about the emerging markets and some of the real advantage positions that we have in these markets which we're very excited about.

But when we talk about shaping a growth portfolio, as I said, it doesn't only include emerging markets because I've often said, if we could find another white space opportunity like in RXBAR, we would of course look at that as well because it's also about shaping a growth portfolio. And, again, Peter is going to talk to you in some detail about RXBAR, but we're incredibly excited about what this has brought to the company. It's brought inspirational innovation and great best practices that we can apply across our business, as well as the fundamental real growth that it's brought to our business.

So you've got a very nice base business in RXBAR, which continues to grow velocities at very, very high rates even as it expands ACV distribution from the mid-30s to the high-60s. We're now going into adjacent categories, which you see the launch of RX Nut Butters, which is exciting, as well as the expansion of our kids' bar portfolio with new exciting flavors that are resonating with consumers, as well as international expansion, which is happening now.

So, north up to Canada and into the UK, we think this brand travels extremely well with the same types of consumers that exist here in the United States. And then a bit of a teaser, this is a very innovative organization at RXBAR, and Peter and team have lots of ideas about potentially new exciting developments. So, watch this space.

Now I talked already a little bit about this in terms of exploring divestitures, but some of you have asked, so why the timing. So, if you think about what we did with the DSD exit, it really enabled us to think about our business in multiple different ways, one of which was what type of portfolio we want to have.



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And so, as I already mentioned, some of these brands have proven that they respond to investment, but we do believe that this could be a better fit in another company's portfolio. We're also quite optimistic that there will be buyers for this very, very attractive asset.

And some of you have already asked, so why announce it before you've done anything. And the answer is very simple here, right? Keeping something like this quiet while running an auction would be virtually impossible. And so, being transparent and talking about what we're going to do and how we're going to do it is what we elected to do.

And again, it's about shaping a growth portfolio and allowing us to sharpen our focus against our real power brands, which are doing extremely well and we believe will continue to do even better as we sharpen our attention and our investment behind it.

And then, how to win? So, building world-class brands and delivering perfect service and perfect store are key elements of our go-to-market strategy. And if we talk about building world-class brands, it's increasingly about leveraging data and analytics, which we'll talk more about as the course of the day goes on.

But one of the fundamental things that great brand marketers have to do is really turn this sea of data that we all have into real, actionable, commercial insights, and we're building our capability and our muscle there in ways that are very exciting. It's about re-establishing brand messaging. Again, I talked about this, but it's really investing behind our brands in meaningful, tangible ways, and you see that in the numbers.

Our investment is going up, it's not going down, and you see that in our top-line improvement and performance. It's about driving awareness for new brands. So we've made substantial investments in RXBAR, for example, with a national advertising campaign, which Peter will talk to you about, which has increased spontaneous awareness substantially for this brand, allowing a brand like this to increase its ACV distribution, double its ACV distribution in ways that it has, while continuing the types of velocity that has retailers so excited.

That's important to do as you expand distribution and it happens because you invest in the brand. And we have put our money where our mouth is in terms of really driving top-line growth. And it drives our brands into the conversation, right? So it's about new marketing in innovative ways. You've heard us talk about the Kellogg's Corn Flakes example in the United Kingdom. We have big iconic brands. You see that for those who are actually in the room, as you look around the four walls, these can be part of the conversation, but it requires investment to make sure that that actually happens.

Then, in terms of service, delivering the perfect service and perfect store. So we talk to our customers about this quite a bit. If we don't deliver the type of go-to-market performance for our customers, we can't be expected to sit down and develop joint business plans. So this is required investment. You've seen us invest in our packaging capabilities and you've seen us invest in the on-the-go.

And maybe a word about this, because I already said, if we were to do a mea culpa, perhaps we wouldn't have pushed so hard. But we're doing a tremendous amount of third-party packing, moving product all across our networks in admittedly very inefficient ways in order to drive this incremental top-line performance.

We could have taken our foot off the gas on this. And equally, we could have reduced our marketing investment and delivered a different outcome in the year 2018. We deliberately chose to actually even press down harder on the gas pedal because we saw the actual demand creation happening. And we fundamentally, again to reiterate, believe that turning around that top line being the most difficult thing, we did not want to decrease our investment. We wanted to lean forward and lean into it. And a lot of that is some of the investments that you see here on this slide in terms of driving a single go-to-market, improving our wiring and so forth.

So, Project K we talked about in some length, but Project K, and I'll talk about the organization in North America and the announcement in just a moment, but it really does start to bring this to a conclusion in 2018. And it's seen fundamental transformation of our supply chain network. Our GBS shared services has been up and running and is a very efficient back-office operation for us. Our go-to-market, which I'll talk about in a bit and our organizational design we're really quite excited about, because it reduces complexity and it simplifies our North American business.

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And so, maybe some texture around this, because again it's an important announcement that we put out last night. And I can tell you that I've been with the business for just over 13 months now. And from the day I joined the business, I was struck by our complexity in North America. I was impressed by our business in North America by our people, our passion, our brands, but I was struck by our complexity.

We have multiple operating units that have redundant functions in many regards. And so, one example we have – and again, Chris will talk about this, so I won't go in great detail. But we have four sales representatives in one aisle of a supermarket, driving four vehicles to and from. We have four top account executives calling on the headquarters of our customers, and they don't want that and they don't like it, they find it inefficient.

So there's so many ways that the old organization of business units that compete for resources, at one point it had its day, but from the very beginning I was struck by the complexity and I saw a real opportunity to streamline and find that beautiful intersection of something that is not only importantly an effectiveness play, but also somewhat of an efficiency play.

And so you can see the from-to here, we go from fully integrated business units to really leveraging the scale of our sales organization, our supply chain and our support functions, right? You see the overlapping brands and categories, Rice Krispies Treats, Rice Krispies Cereals, brands that would sit in multiple business units, driving complexity. Driving towards this new organization is something that we're very excited about.

We took the theme through it at the close of business yesterday and put out that announcement. And the timing was very purposeful because, as I said, although I saw this opportunity at the very beginning, it was also important to get the right leadership team in place. And Chris Hood, who you'll hear from later, a fantastic executive, as is my entire team, really world-class executives, has been on the ground for just over six months and established himself as a leader of the organization, looked at the same things, came to the same conclusions, and allowed us six to eight months to work on what the right organization to win in the future in North America is.

And that's what we unveiled last night and we're very excited about it. So the timing was right. It's not about a cost savings exercise. It does have some cost savings, which is nice, but it's fundamentally about efficiency and about better execution, and it's by the way what our customers again had been asking for.

Another way we're reducing complexity is the way we approach Africa. So, in the past, we had our North Africa business and our Middle East business attached to our European business for a number of reasons, some of which Amit will talk to you about. Having one African strategy is very, very important.

We have JV partners that actually are in Africa. So, one voice to the JV partner as well as having just a fundamental African strategy for some of our exciting initiatives like noodles, there's any number of reasons to put Africa together, and we'll be doing that at the beginning of January.

We're also simplifying our cereal business. So you'll see in 2019 something as simple as our entry-level packages for our cereal packages in the past have been very, very different. And so, if you look at the slide here, this is an actual depiction of what it looks like. Now, some simple things like manufacturing efficiency, you can't get good efficiency if you're running different pack sizes all the time. You actually can't display on the same pallets. You can't have big island displays of products like this. So, simple things like simplifying the cereal aisle in 2019 are big opportunities for us as well.

And so I'm very excited to be with you here today. I'm excited about the journey that we're on. I'm especially excited about our Deploy for Growth strategy and where we are in that journey, especially as it relates to getting that top-line performance, where we needed to be at the beginning so that we can get to our journey of what we outlined to you at CAGNY, which is fundamentally getting our developed markets' cereal business into a stabilization. And Doug will talk to you in fair bit of detail about exactly what's happening there and what we're doing.

Getting our developed market snacks to low-single-digit and everything from the divestiture that we're talking about to the investments that we're making give us a high degree of confidence that we're absolutely on the journey to getting that developed market snacks to low-single digits. Our emerging markets, very exciting mid-single digits. You're going

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to see that happening, you're going to see that in action, you're going to see that delivery from Maria Fernanda and from Amit in just a moment.

And developed markets' frozen, a very exciting business for us, only low-single digits. So we're really, I believe, on the way doing the fundamental right things. We're not doing everything exactly as we outlined, we recognize that, but we do believe that the choices that we've made are the choices that Mr. Kellogg would have made, if you're thinking about running this business for the long-term value of the shareholders and making some short-term sacrifices in order to deliver that long-term trajectory, which again fundamentally means that a business like ours has got to return to sustainable top-line growth that ultimately is margin-accretive because we're investing in the right places in order to drive that.

And so we're going to hear about all those themes today. And as John mentioned, at the end of each section, we'll have Q&A and engage in the dialogue with you. And again, we're thankful that you're here and we're looking forward to the dialogue today.

Now I'm very excited to bring Maria Fernanda up on the stage, who is going to begin our discussion around emerging markets.

## **Maria Fernanda Mejia Campuzano**

Thank you, Steve. And good morning. Central to our Deploy for Growth strategy, as Steve highlighted, is shaping the growth portfolio. And central to shaping that growth portfolio, as he also highlighted, is our plan and expansion of the emerging markets.

Now, as all of you know, the emerging markets are highly volatile. There's often times challenging and often times unpredictable, but they are very exciting. These emerging markets house the world's largest populations. Skewing younger, it houses the rise of the middle class across all of these markets. And, importantly for us at Kellogg, these are vibrant categories, vibrant trading environments and markets that have vibrant food cultures. And for a food company like ours, that's terribly exciting for us as we think about growth.

Our emerging market business, as Steve noted is, about 20% of company's sales. And as you can now also see on the chart, a healthy geographical representation. As we think about the opportunity to expand our distribution across these markets, the penetration and frequency of purchase, you can see the size of the opportunity is quite substantial in many of these large markets where we still have opportunity for category and brand development.

We're well-positioned in our company and privileged to have in our portfolio across the emerging markets experienced management teams that know how to grow our global brands like Zucaritas or Frosted Flakes, and Pringles, as you know, a big hit for us since the acquisition.

We've also doubled the size of our Kellogg Masterbrand business over the last five years; Masterbrand, grain-based nutritious foods, fortified foods in cereal, wholesome snacks, wholesome cookies and noodles in West Africa. And over this period, we've also made a significant amount of investments in the emerging markets. We have local brands, strong brands, such as the recent acquisition of Parati in Brazil; Bisco Misr, a leading cookie player in Egypt; and Lyubyatovo in Russia.

Russia is a business, the Lyubyatovo brand we acquired about 10 years ago, over that period and most recently under Chris' leadership, we've seen double-digit growth. We've seen how we expanded the portfolio beyond cereal to salty snacks and biscuits, and importantly, we're building scale and gaining share. An exciting opportunity is to enter the neighboring Eastern European countries where we see similar market dynamics, so that we can double the size of this business over the next five years.

Now turning to Latin America, an exciting region that I'm responsible for leading with our teams. We have almost 650 million consumers, albeit the bulk of that are in Mexico and Brazil. But through the recession and all the economic volatility, we continue to see the middle class grow. And while the growth in some of these markets over the past five

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years has slowed, they're still in growth and we expect, as economic conditions improve, for those markets to continue to grow.

We've been betting over the last five years on key markets, and really jumping and leaning in aggressively into snacking. Many of you might not know that Brazil and Mexico have some of the largest snacking category segments in the world, particularly cookie and crackers and salty snacks. So we've seen how we've diversified the portfolio where today our Mercosur business has a larger representation of that. And you see how we're becoming less dependent on cereal, and now have a variety of snacking segments that are driving that growth and will drive the growth as we move forward.

And our portfolio has started to shift to snacking, most notably in Brazil, where through the Parati acquisition we've been able to scale up our snacks business; and in CARICAM where we also have a very healthy snack business across the segments I've just showed. And as we look at Mexico and Andean, tremendous opportunities to continue to grow, not just our wholesome and Pringles business, but possibly expand Parati beyond Brazil.

We have strong brands in the region. We'll begin with the Kellogg brand where we've seen nice growth over the period. In the emerging markets, as I said, we've doubled the size of our Kellogg brand business. It's considered one of the most powerful breakfast brands and where we hold a commanding share. The bulk of that commanding share is focused on our kids' brands where we're also seeing pretty nice growth over the period and where we have some of the highest power brand health ratings in the market.

And super exciting for us, double-digit growth on Pringles, much like you've seen in developed and other emerging markets. We're the number three brand in potato chip. And you can see by the size of the share market, still tremendous opportunity to expand our position in markets, again, particularly in Mexico and Brazil, some of the largest salty snack markets in the world.

I'm particularly proud of the work the team has done in integrating and transitioning the Parati acquisition. As you know, Brazil is not one country, it's four countries. Parati is located in the south of Brazil. We are now the number two cookie cracker company in the south post the acquisition and posting two years of double-digit volume and double-digit net sales growth. While we have a 3.5% share nationally in Brazil, in the south we're almost at an 11.5% share of market. So, really exciting portfolio of strong, well-respected, powerful brands.

We created in Latin America the Kellogg unit of brand engagement, because we fully realized that engaging with consumers has changed and will continue to change. I always say to the team, we don't need a digital strategy. We need a strategy for a digital world. This was created in Mexico City, rolled out across the world and now opening shops soon in Brazil.

It really started as a hub to create content. Now, it will house our data and analytics, and Steve talked about how important that is at not just innovating, but getting the right insights to go to market more effectively. It will also house our e-commerce capability and become a hothouse for incubating not just new product ideas, but new innovative business models.

We've been focused around these consistent priorities over the last five years, is to grow Mexico, a real razor-sharp focus on accelerating snacks, and we know Pringles has been an important catalyst for that; in transforming Brazil, many of you will remember, Brazil was a very small component of our business in Latin America and of the emerging markets, but it is one of the largest economies in the world, the largest economy in Latin America, and through the Parati acquisition, we're certainly transforming our footprint in the region and transforming our cultural mindset in the region as well.

Over 85% of ACV in Latin America happens in high frequency stores. What houses high frequency stores? Mom and pops, neighborhood stores, convenience, mini supers in the case of Brazil, and sometimes even informal markets, and we see that across the emerging markets. And it is that consistent focus that has led us to 10 consecutive quarters of growth in Mexico, primarily cereal market, however showing really demonstrative growth across Pringles and our wholesome snack portfolio, and leading the growth again on Kellogg Masterbrand. So, really exciting to see consistent profitable growth in Mexico.



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But we see strong performance across the region. We also see great performance from our Mercosur teams on cereal, and that's being really led through a real deliberate focus on the category development behind cereal. So, behind Masterbrand, we've also developed very relevant local campaigns to drive greater awareness and understanding of our nutritious healthy portfolio.

Zucaritas is a power brand for us, Frosted Flakes better known in the United States, and we continue to focus big shopper programs with our retailers to drive greater engagement and awareness and trial and repeat of our brand. And we've talked about Masterbrand and the portfolio execution across a number of categories also leading into different category segments in wholesome snacking.

As we've talked about, accelerating snacks is really important and Pringles is a global brand that we want to continue to focus on in the region. I noted the double-digit consumption in our largest markets, Mexico and Brazil, but we see that growth consistently throughout our Caribbean and Central American regions and Andean. And importantly, we're growing across all retail environments. And when 85% of your ACV is in high frequency stores, it's really important that we drive the distribution across those retail environments and get more of our products in the hands of consumers and shoppers, and getting them throughout more occasions throughout the day.

How are we driving greater affordability and accessibility? And you'll hear from Amit as well. Our transformation of our portfolio in high frequency stores to bags, it's about 20% of our portfolio today. But it does allow us to be placed in small stores much easier than before. Large boxes don't work well in small neighborhood stores. And it allows us very importantly to get the right price points to drive and break the affordability barrier that has traditionally prevented us from growing the penetration and development of the category.

In single-serve, we've skewed a lot of our portfolio to Pringles single-serve, wholesome snacks single-serve, and we were really lucky with the Parati acquisition to bring single-serve capability across cookie and crackers and some of the other category segments where we lead, such as powdered juices. So this is going to be really important, not just to get the distribution, not just to get the penetration, but certainly to drive our nutritious products and indulgent products through more occasions throughout the day and drive greater consumption.

Parati indeed is helping transform our portfolio in Latin America and shape our global portfolio. It has tripled the size of our business. We've seen, again, double-digit growth since the acquisition and it's a really lovely portfolio, beloved brands, particularly in the south of Brazil. Importantly, and we talked about productivity and reducing and optimizing our cost structure, it's helping us transform our supply chain footprint in Brazil in the region and, again, providing us real strength and expertise in high frequency stores where we have a direct sales force in the south.

And exciting for all of us, and particularly for myself, is to work on the expansion plans, not just for expanding our Parati portfolio within Brazil to the center and the north, but also outside of Brazil into other Latin American countries.

So, again, high frequency stores, really important for us. We've seen mid-single-digit growth in Mexico and Brazil and, quite frankly, throughout the region. We now have a scalable portfolio with which to go to these small mom and pops, and we've driven distribution in well over 250,000 outlets. So this will continue to be an investment area and an area of focus for us in the region.

So, as we look at how we're going to prioritize our investments under our Deploy for Growth strategy, occasions is a great opportunity as we now have a scalable portfolio in the right pack for the right retail environment for that right shopper. Continuing to strengthen our world-class brands and really drive that digital engagement model is going to be fantastic for us, not just to transform our engagement, but to drive new innovative solutions across the portfolio of brands.

And where the pedal hits the metal, as we say in Texas, is winning at the point of sale. So we need to be in those right retail environments, servicing our customers at the right time with the lowest total delivery cost, and ensuring our commercial execution is data and analytically driven to perform and reach our objectives. And as Steve mentioned, we continue to invest in building commercial capabilities across all of our management teams and across all our functions.

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So I guess, in summary, while challenging and always unpredictable, we see and will continue to see favorable growth dynamics in the region. We are betting on the biggest markets and really focusing and leaning in aggressively on snacks, not just with our global brands, but with our local and regional brands. We're excited about the opportunity ahead also in cereal and driving it across greater occasions. And we have very experienced management teams across the region that have demonstrated capability in managing the tremendous volatility that we're well known for in Latin America. And I think, as you'll see, we are already on an accelerated growth path.

So, with that, I'll leave you with Amit Banati, our President of Asia Pacific. Thank you.

## Amit Banati

Thanks, M.F., and good morning, everyone. As Steve mentioned, we'll be transferring the Middle East, North Africa and Turkey markets from Europe into Asia Pacific. This better aligns markets with similar consumer preferences and growth drivers, and will enable us to transfer ideas and executions faster across the emerging markets of Asia, Africa and Middle East.

The MENAT region will add around \$280 million of sales and around \$50 million of operating profit to the Asia Pacific region. The new AMEA region will include Australia, Asia, Africa and the Middle East, and will be close to \$2 billion in annualized net sales. The AMEA region is an exciting growth opportunity for the Kellogg Company. It is home to close to 6 billion consumers and accounts for 40% of the world's GDP. Yet today it accounts for around 14% of the Kellogg business. So, that gives you a sense of the runway ahead of us in this region.

We have made substantial progress in developing our business in these exciting emerging markets. Our business in AMEA has more than doubled in the past seven years through a combination of both organic growth as well as acquisitions such as Pringles and the recent acquisitions in Nigeria and in Egypt.

We now have a broad geographic presence across the region with a leading presence in key emerging markets like Nigeria, India and Egypt. Equally importantly, we've built a multi-category portfolio that includes cereal, noodles, Pringles, extruded salty snacks and biscuits. This geography and category footprint, as you'll see in the coming slides, is the cornerstone of our growth strategy in AMEA.

Let me start with cereal and the breakfast occasion. Cereal is a growing and high value-added category in emerging markets. Our cereal business has been growing at mid- to high-single-digit growth rates in emerging markets in the region. However, cereal penetration is still very low. So our single biggest priority is to continue to grow the cereal category. We're getting sharper in our insights and executions to convert consumers from traditional breakfast into cereal, and we're making good progress on that.

We will focus our investments behind the Kellogg Masterbrand. This allows us to house multiple foods and products under one brand and it also provides us scale in execution both in marketing and in store. The Kellogg Masterbrand purpose, Nourish your Great, is being brought to life in engaging and locally culturally relevant ways. We're also driving locally relevant food in these emerging markets.

A big part of our strategy is to make the brand accessible and available through specific facts for channels and make them available at magical price points. This is proving to be a big growth driver for us in these markets. Extensive sampling is also proving to be a big category driver, and we will continue to invest in sampling as we look to drive our cereal business at mid- to high-single-digit growth in the region.

In addition to driving our cereal portfolio, we also want to significantly increase the footprint of the Kellogg brand by creating a portfolio of relevant offerings across the affordability pyramid. We believe that by providing more affordable offerings, we can access an incremental 1 billion consumers in the region. This is a significant growth opportunity ahead of us.

We have launched Kellogg's noodles in South Africa and in Egypt. And this makes the Masterbrand accessible to a new set of consumers and to incremental occasions. We're very pleased with the initial response of this in the

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marketplace and are looking forward to this becoming a key growth driver for us going forward.

We're also looking to stretch the brand upwards through premium health and wellness offerings such as granola. This makes sure that we are providing products to meet the evolving needs of consumers at the top-end of the pyramid. We've already created more than a \$100 million business in granolas in markets such as Japan, China, Korea, and we are rolling this out under the Masterbrand across the region.

Let me now turn to Pringles. Since the acquisition in 2012, this business has been growing at mid- to high-single-digit growth rates in the region. We're executing the global playbook with commercial activation platforms such as football and music, and in-store execution behind proven growth drivers such as gravity shelving and mega displays. Additionally, local commercial innovation tied to key cultural moments and events is resonating with consumers and driving incremental consumption occasions.

The new manufacturing facility that we put in Malaysia has been a key enabler of growth. This, along with the snacks R&D center that we built in Singapore, has allowed us to provide preferred foods and local flavors. We are increasing our investment in the Malaysia facility to support the growth that we are seeing in the region.

We're also pleased with the progress that Pringles is making in emerging markets, as we make this brand more accessible and affordable through small cans and the recently launched mini Pringles in bags.

In addition to Pringles, we're also creating a portfolio of snack products across the affordability pyramid. In Egypt, we acquired the iconic Bisco Misr biscuit company, and that business has been performing well since the acquisition. We have just launched the [ph] Munch It (49:22) range of extruded salty snacks in Nigeria and are optimistic about its prospects.

Biscuits and extruded snacks are affordable snack products and form the bulk of the snacks category in emerging markets. At the premium end, we're launching the Kellogg range of wholesome snacks across the region. We're building a snacking powerhouse with Pringles, wholesome snacks, biscuits, and extruded snacks across the AMEA region.

Having talked about our category strategies, let me now give you an overview of our strategy in key markets. Let me start with Africa. Home to 1.3 billion consumers, accounting for 17% of the world's population, Africa has a GDP of \$2 trillion. The population is young and dynamic, with a relentless energy and drive in shaping a better tomorrow. South Africa, Nigeria, and Egypt are the three largest economies in Africa accounting for almost 50% of the GDP.

We have had a longstanding presence in South Africa for more than 70 years. With the recent acquisitions in Nigeria and Egypt, we now have presence in the three largest economies of Africa, with on-the-ground management teams, with leading brands, deeply penetrated route to markets, and local and integrated supply chain. We will be approaching close to \$1 billion in sales in Africa, which makes us a leading food company in the continent, well-positioned to drive double-digit growth going forward.

Let me now just give you an example of two or three of our emerging markets and how we are bringing our strategy to life. Let me start with Nigeria. As you are aware, in 2015, we made an acquisition in Multipro by buying a 50% stake from the Tolaram Group. Multipro is a leading sales and distribution company in Nigeria. We also set up a 50/50 joint venture with the Tolaram Group to develop cereal and snacks, as well as noodles in the rest of Africa.

Earlier this year, we extended our participation in Multipro by taking a controlling stake. We also made an investment into Dufil, a leading marketing and manufacturing company in Nigeria, via a 50% stake in Tolaram Africa.

With these investments, we now have a scaled presence in Nigeria, a market of 190 million consumers. We have on-the-ground presence. We have best-in-class route to market, and we have a management team that has spent decades in the market and knows how to navigate through the complexities of the market.

We're making good progress in developing our cereal and snacks business in Nigeria. We have built a state-of-the-art greenfield facility just outside of Lagos to manufacture cereals as well as extruded salty snacks. Earlier in the year, we launched locally made Kellogg's cereals in affordable packs, and this is off to a very strong start. We have just

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launched the [ph] Munch It (53:14) extruded salty snacks in Nigeria, and I'm very optimistic about its prospects as we look to lead the creation of the salty snacks category in Nigeria. We have launched Kellogg's noodles in South Africa and in Egypt. Both are off to a strong start and we are optimistic that this would be a growth driver for us in the years to come.

So we're very excited about the potential that we see in Nigeria. Our cereal and snacks are off to a strong start. And with our investments in Multipro and Dufil, we now have a business that is close to \$750 million in Nigeria, making us a top-three food company in Nigeria and providing us with a platform for growth going forward.

Let me now turn to Egypt. In 2015, we expanded our presence in Egypt through the acquisition of two food companies. We acquired Bisco Misr, which was the leading biscuit company in Egypt, a beloved brand, an iconic brand in Egypt. We also acquired Mass Foods, which was the number one cereal company in Egypt with the Temmy range of cereal. Both these acquisitions have been performing well, growing at double-digit rates since the acquisition, as we look to premiumize the Bisco Misr range of products and drive cereal category development in Egypt.

Additionally, we've leveraged the Tolaram acquisition to launch Kellogg noodles into Egypt. And as I mentioned earlier, this is off to a strong start. So you can see, we have quickly scaled up in Egypt an exciting market of 100 million consumers with plenty of growth potential going forward.

Let me now turn to India, another market with a lot of potential for packaged foods going forward. India is home to 1.3 billion consumers, 65% of which are under the age of 35. The packaged foods industry is a \$50 billion category growing at double-digit rates, but still very much in the early stages of formation.

We've had a longstanding presence in India for over 20 years. We have created the cereal category in India. Our cereal business is growing at double-digit rates and we are by far the market leader with more than a 60% share in breakfast and more than an 80% share in [ph] Arctic (56:07).

We have recently entered the snacks category, the large and growing snacks category, with the re-launch of Pringles and this is off to a strong start. India is a priority market for us and we will continue to invest to position ourselves to take advantage of the tremendous growth that will be on offer in this market.

So, in summary, we're very pleased with the progress that we are making in Asia and Africa, as we have more than doubled our business in the past few years. We're now close to \$2 billion in annual net sales in the region with strong growth momentum in 2018. We have a broad geographic presence with leadership positions in key emerging markets. We have a multi-category portfolio suited for growth in emerging markets. We have a strong management team with deep emerging market experience.

AMEA is an exciting growth region for the Kellogg Company, and we look to continue the momentum with a mid-single-digit growth outlook for this region.

Let me close with a video that'll bring to life some of the in-market executions from across the region. Thank you.

[Video Presentation] (57:35-59:26)

## Peter Rahal

Is this working? Good. All right. First, I'd like to say, it's a total privilege to be here. And speaking for new guys today, I'm excited to share a little bit of our story and the business and additionally it's a total honor to be a part of the Kellogg Company, a principled company. So, thank you.

So, today actually this month marks my six-year anniversary of being at the company and founding it. So I wanted to tell you guys a little bit about our origins and get you guys up to speed on some things. So the business was started with the real – well, the question we were looking to solve was why isn't there a better protein bar or why isn't there a natural protein bar? Simple question.



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And what's important about our plan to solve that question was the way we went to go build a business. So the strategy of the company was really to start very narrowly building a digital e-commerce business and to address a specific customer or consumer problem. In doing so, we built a very entrepreneurial company and through that we've learned a ton through the business.

Now, if you look through our chart, we've had tremendous growth 2014, 2015, 2016, 2017, and up into today we've grown tremendously. And it's this relentless focus on the customer and more importantly solving an actual consumer problem. And with our entrepreneurial approach, we have a business model where we start small and adjust as we go. So we constantly iterate and adjust to solve our customers' problems.

So, when we think about the business today, we're really just getting started. We have so much opportunity, and this approach to how we work is really innovative and we're excited about what it allows us to do.

So, life at Kellogg. So, as an entrepreneur, prior to working for the company, I was very fearful that like I might be fired or there's these kind of irrational fears, but the reality is that it is obviously not true. And I couldn't be more satisfied with being on this side of the company. Now, the truth is we would not be where we are today without Kellogg support. We're expanding internationally. We have mitigated significant legal risks and we've accelerated our innovation through access to their R&D facility.

Now the R&D facility, for those who don't know, is outstanding. I was like a child in a candy shop when I went there. It has all the capabilities to make any type of food in the world. And as an entrepreneur, having access to that is a total privilege and it really accelerates our ability to move faster. So there's these things that, very tactical, really benefit us as an operation that Kellogg has enabled. So, life at Kellogg is great. I couldn't be happier and we wouldn't be in the position we are today and set up for the future without it.

Now, I want to talk through some of what we're focusing on the business. So, as you see in the pie chart, you need to think about our business as we started, like I mentioned earlier, digitally through e-commerce. And so this specialty in e-commerce part of our portfolio is significant, over 30%, and it is a competitive advantage that we continue to focus on. And as you see, the channel mix, we saw a ton of room to grow in mass and grocery and club as well. But, again, while we expand distribution in other channels, this e-commerce piece is critical for us.

Now, if you look at some of the data, yeah, to the right, you see households penetration is at 6.5%. So we have tons of room to grow there. That has recently been doubled. Trial is only 2.4%. And then, repeat is really strong and healthy at 37%. So, tons of room to grow.

As I move forward, I want to talk about where we're investing in our core business. So, something we've learned is getting bars [ph] on people's knowledge (1:04:14) is one of the best tactics there is. And to be honest, the business was found on trial. So, in the early days and even to today, we've always been sampling the product heavily, getting tons of feedback and having high quality engagements with our customers. So, as we move forward, this is an area we're going to continue to invest and at scale with our field team.

And then, as you know, growing awareness is super important as we gain distribution, and we've recently launched a new ad campaign, as you see the commercial here with iced tea. And this is important to emphasize because, as we grow and as Steve's mentioned before, we want to transcend the bar and really be a great iconic brand, and that takes a great campaign to drive awareness towards that.

Now, some areas where we're investing. So, one of the key areas is we have so much room to grow in our core business. So we have distribution to expand here. We have tons of awareness to continue to pursue and, obviously, trial is important and the main tactic. And then our kids portfolio is really important, and this is part of our core business that we're going to continue to grow and gain distribution with.

And the second piece that's really exciting is RX as a brand is going to transcend the bar with new category expansion. So, both nut butters and then we have a ton more to come in 2019. So we will transcend the bar business and really proliferate into new categories.

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And then, international, so new markets. Like Steve mentioned, we have Canada, which is just north of us, that we're commercializing, we commercialized last month and then the UK business as well. So we're expanding into Europe. And it's an important detail here with our European business is we aren't just shipping product there. We're actually commercializing the food there. And it's these details and this quality that's really important to touch on, because this will set us up from our competition who usually just export. So, for us, we're commercializing the food there, and we have a team there that is going to drive that business.

So we have a really exciting opportunity ahead of us. Like I mentioned earlier, our origins and the way we built the business has set us up as a unique platform and entrepreneurial business model, and an e-commerce bias, a entrepreneurial bias, and these biases help us to really expand. Our focus and where we're investing again is on our base business that allows and enables everything for us. And then, adjacent new categories for the brand, international expansion, and then we want to create an organization and a platform for new insurgent brands as well, and whether that's us creating it, reverse-engineering our approach to how we did RX, or through acquisition and serving that.

So, really excited about the future ahead. Again, our focus is on expanding distribution. We have significant ACV to close as well as TDPs, so getting to new skewers into stores. We have massive opportunity to build awareness through trial and our new ad campaign, and really transcend a great product and be a powerful iconic brand. And then new categories, so nut butters and more to come in 2019 for our brand, and then launching in Canada and UK. So, new markets for us, new doors and tons of opportunity ahead for us.

In closing, in summary, we are more than just a brand. We're more than just a bar. We're an entrepreneurial model that is positioned to scale growth opportunities across different markets and brands. We have access to Kellogg's resources, so from R&D, to data to – et cetera. There's too many to list.

But, again, our focus is on the base business. So we have so much room here in North America. So, that is our priority. And, again, new categories for RX and entering new markets. So there's tons of room to grow. It's a total privilege and we are just getting started. So I think that's the closure.

## John Renwick

Okay. Who has the mics? Okay. [ph] Deb, Steph and Zack (1:09:06) at mics. Let's open up for questions. Anyone? Yes, Ken. Right up here, guys.

## Q&A

**<Q - Kenneth B. Goldman>**: Hi. Thank you. Ken Goldman with JPMorgan. Steve, I can think of a few companies off the top of my head that pulled back on transparency over the years. I know that's not what you're necessarily trying to do when it comes to the reorganization. But from our perspective, it sounds like we're going to get less detail on the North American business, snacks, cereal, all of that.

And in all of those cases in the past, I can think of just off the top of my head, it is generally portended challenging trends. And every company is different and so forth, but I'm trying to get a sense of if we really are getting less transparency from you, how do investors look at that as a positive in the near-term? I understand what you're trying to do longer-term for the business and that matters more, but why can't you reorganize the company and still provide us the same level of transparency that we had previously?

**<A - Steven A. Cahillane>**: Yeah. Thanks for the question, Ken. I think, fundamentally, and Fareed will talk more about exactly how we're going to communicate. We are going to work as hard as we ever have in maintaining a level of transparency so that investors can understand our business. But fundamentally, what we are charged with doing is running this business in the most efficient and effective way possible.

And so, when I look at the construct of a morning foods group and a snacks group and a specialty group and in other group and in frozen, it's not the most efficient and effective way to run the company. So the problem we were trying to

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solve, the opportunity that we are addressing is how do we be more effective in the marketplace. We talked to a number of our customers. We talked to a number of stakeholders in the business to come up with this new organization. And so there was never, hand on heart, any discussion around trying to be less transparent. It's trying to deliver a more effective outcome in North America.

And so, going forward, we'll work on how we maintain a level of transparency so that people can understand our business. And there's all sorts of what – you can look at Nielsen, you can see – I mean we're a very, just by nature, easy to understand business. And so we'll work with all of you in terms of taking your input on how we can be as transparent and make your jobs as easy as possible, because ultimately we want the same thing. We want you to understand our business, what we're doing, where we're doing it, where we're winning, where we have other opportunities. And so I can promise you that we'll work to maintain a level of transparency. But first and foremost, we're setting up the business to win to be effective.

**<Q - Michael S. Lavery>**: Thank you. Michael Lavery, Piper Jaffray. Just wanted to get a little more color on Africa and I guess curious, as you look at some of the deals that have been part of the recent past, how do you think about and how you're positioned now and should we expect even more inorganic growth?

And then, just on the growth profile, you've obviously highlighted some of the top-line drivers. What's the right way to think about the economics and some of the investments there? Is it something that would also be growing on the EBIT basis or is it more investment near-term? What's the right way to think about that trajectory?

**<A - Amit Banati>**: So I think our focus has been to create the platform in Africa. That's kind of been our focus in Nigeria and Egypt and in South Africa. And we're very pleased with the platform that we've created. I think, going forward, it's really leveraging that platform to drive like I said cereals, noodles, salty snacks, Pringles and biscuits, right?

So we've got a multi-category portfolio that we want to drive. And really the focus would be on driving that on an organic basis because the platform is in place. I think, as we do that, we'd expect both top-line and EBIT growth. And these are high value-added categories, and so I think we'd expect to drive both.

**<Q - Michael S. Lavery>**: So I had a question, Steven, in relation to your long-term growth outlook, and you're still obviously in an investment mode here. As you start to lap a lot of the savings, you have a lot of savings that are coming through from Project K and ZBB. And you've got a pretty wide gap to bridge between sales growth and EPS growth.

And we used to always think about a little bit of revenue growth would go a long way to generating the kind of profit and EPS growth you need. But as you lap those savings, there's quite a wide gap to fill. Are there more savings to come? Or I'm just trying to – or better yet, if even faster revenue growth to try to achieve your long-term growth algorithm? So I'm just curious if you could talk about that from a high level and, again, how you bridge that gap as you lap a lot of the savings?

**<A - Steven A. Cahillane>**: Yeah. No, thanks for the question. I think there we're not announcing any cost savings programs today, right? As we mentioned, the North American reorganization does come with cost savings that are already embedded in the Project K that we talked about.

In terms of going forward, the long-term algorithm that we talk about all the time, as you rightly point out, a little bit of revenue growth typically on that comes with a lot of leverage historically. Because of the demand creation that we're seeing right now, which we've talked about quite extensively in terms of on-the-go formats and so forth, requiring investments is margin-dilutive. In fact, so much of what we created is virtually not profitable today. It will be profitable tomorrow.

So you can imagine on a long-term basis, when I say returning to our algorithm, look, the demand that we create will come with leverage. And so, as we grow our top line, we'll get back to that historical algorithm because the leverage will be there, as we invest and put capital as fast as we possibly can in these on-the-go occasions because in most industries, if not all, these types of single-serve, on-the-go type of products are accretive to margin. They're higher margin than your pantry packs, and that's what we aspire to going forward. So, that's the path that we're on.

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**<Q - David Cristopher Driscoll>**: Great. Thank you and good morning. It's David Driscoll from Citi. Questions for Peter. First off, hopefully, they do not make you wear a suit at your RX headquarters. I like the other photos you have. And then I'd just like to ask on, you have a lot going on. I mean, there's multiple international market launches, new product categories, new brands, you've listed so many things. What is the number one priority as you see it? And then I just have one follow-up.

**<A - Peter Rahal>**: Yeah. So, for us, the number one priority is our core business in the U.S. That enables and feeds everything else for us. We're just investing for the future for growth in the longer-term, but 100% of our focus is in the core business.

**<Q - David Cristopher Driscoll>**: Okay. And then can you just talk about the competitive environment? We have seen a number of RX copycats. How does that affect that number one priority? And does it raise awareness for the product or does it fundamentally start to cause pressures on your business in order to achieve the expansion of TDPs, et cetera?

**<A - Peter Rahal>**: In the short-term, it gives us a sense of urgency. In the long-term, I don't think it's a real issue for us. But no, I mean, for our team, it's motivating. It gives us something to fight for. So we're just going to chase harder now.

**<Q - David Cristopher Driscoll>**: Thank you.

**<Q - David Cristopher Driscoll>**: This question is also for you, Peter. You've created essentially one of the quintessential disruptor brands when we think about it. I mean, it's clearly struck a chord with consumers in a big way.

But I'm curious, as you think about iconic brands like many of the ones that Kellogg has, that would seem to have many of the advantages over disruptor brands. I'm just curious how you view the opportunity for larger brands since you've kind of been the quintessential disruptor competing against them? Do you see it as though they have all these advantages, the R&D, the velocity off the shelf, the brand awareness that disrupters can't match, but just haven't had the ability or wherewithal to come up with a more contemporized product for consumers and that if they can do that with the help of people like you, these iconic brands still can have a long way to go.

I'm curious to hear your perspective, because we know what all the iconic consumer-branded companies think about it. But I'm curious from a disruptor's point of view, how do you see that opportunity?

**<A - Peter Rahal>**: Yeah. So I think a lot of it's context. One word new, there's like a newness bias we have; whereas iconic, they're already fully mature. So I think context is important. But I think brands today, they have to tell the story, they have to have identity. So I think all brands have that opportunity to tell that story and infuse meaning into their food. So I think that's where their opportunity is.

But, again, I do think it's the difference between a mature brand and an emerging brand. So, for us, we're only five years old, six years old. So it is new and fresh and relevant. So we have a bit of a unfair advantage I would say.

**<Q - Robert Moskow>**: Thanks. Rob Moskow, Credit Suisse. Steve, when you came aboard about a year ago, I think your message was, boy, the company is in great shape. John Bryant did a lot of the heavy lifting with a lot of restructuring and changing the sales force around. And you seem very confident that the company was basically back on algorithm that it would grow in a profitable way in its mid-single-digit form. And I think a lot of us were concerned that it needed some reinvestment.

So, can you take us a little bit through what you learned since then that is now going to set us up for, I guess, probably a second year with no operating profit growth in 2019? What changed?

**<A - Steven A. Cahillane>**: Yeah. So, thanks for the question, Rob. I wouldn't say anything changed from the things obviously. I do give John tremendous credit for all the structural heavy lifting that had been done. And what you may have heard me say is those big giant structural things are benefiting our way forward.

And so, the North American restructure, I wouldn't say – like I said, it's been on our agenda from the beginning. It was just when was the right time to do it. And it's not a cost savings play, it's much more how do you be more effective in



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the marketplace. And we'll always be looking for ways to be more effective in the marketplace.

In terms of investing for the future, we never said we're going to be back on our algorithm this year in terms of getting to where we need to get to. The most difficult was always going to be the top line. So we're getting to where we need to be on the top line. The way that we're getting there right now is fundamentally requiring investment around the single-serve on-the-go that we've talked about quite extensively.

And once we get the [ph] solves (80:44) to that, it's our biggest issue in why the algorithm, why a 1% to 2% top-line growth is not translating into what we would historically see because of where that growth is coming from. Once we get those structural impediments fixed, and we see it, so this is not hypothetical, we see it, we can put the automation in the plants, we can limit the third party, and we can limit some of the logistics costs of moving things around. When we get there, then that top-line growth does provide the same leverage that it has historically. And so, that's the journey that we're on.

**<Q - Jason English>**: Hey. Good morning, folks. Jason English, Goldman Sachs. I want to come back to the consolidation within North America a little bit more. Steve, as you described it early on, I think one way you illustrated it was right now you've got four touch points to retail. And let's just randomly say, Wegmans, you've got a guy going and selling frozen to the headquarters, a guy going and selling cereal, a guy going and selling snacks. And I'm not sure what the fourth guy is, but there's a fourth guy in there too. And you're now going to consolidate it to one. Is my understanding there generally correct?

**<A - Steven A. Cahillane>**: Generally, correct. We're going to keep RX as a separate organization and we're going to keep Kashi as a separate organization, leveraging the entrepreneurial kind of spirit in both of those businesses, but otherwise broadly correct.

**<Q - Jason English>**: How is that not then just a cost play? It sounds like you're removing a lot of touch points. And how does it actually improve execution and not carry executional risk? It sounds like you're going to be severing relationships between a frozen expert and a frozen buyer, and a cereal expert and a cereal buyer, in wrapping all together. So are there not savings there? And how do you avoid executional blunders with that type of transition, because we've seen transitions like these in many other companies and usually there is a step back before there is a step forward?

**<A - Steven A. Cahillane>**: So, to be clear, it will come with benefits in cost reduction. That wasn't the reason for the decision to go and do it. And so, if you talk to our customers, and I'd invite you to do that, they will tell you that we are a confusing company to do business with because we allocate resources across multiple categories with multiple people. There is not enough one voice to the customer which basically outlines the priorities where we see the greatest growth opportunities for that customer.

And so there's an inherent inefficiency in the way we go to market. When you have one Kellogg voice to the customer, and internally you don't have competition for resources in a new way forward because there is one Kellogg that basically is allocating resources across these, whereas in the past you had to fund different business units. You essentially had infrastructures by business unit inside one geographic territory.

And so, how we avoid executional missteps along the way? We've been planning this for the better part of six to eight months. And we believe we have a roadmap and a game plan that is absolutely world-class. Every single person that is affected by this organization will be talked to by tomorrow. And the right retention plans, everything that you would expect to be in a world-class execution plan to make sure that we do not have a misstep with our customers, is in place.

**<Q - Bryan D. Spillane>**: Thanks. Bryan Spillane from Bank of America Merrill Lynch. Maybe just to follow-up to Jason's question. I want to make sure my – just a clarification I guess. The reorganization isn't necessarily taking people out. It's just redeploying, having the same number of people do maybe different tasks, or is it really going to come to sort of a smaller sales organization?

**<A - Steven A. Cahillane>**: No. There will be some redundancies, but it's not a number over 100. I mean, so relative to our size and scale, it's relatively small. It will mostly be a redeployment. And so that's the way you ought to think about

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it. That's why there is some savings but that's not the marquee event here. The marquee event is becoming much more effective in how we go-to-market.

And by the way, if you look at the structure we're going to compared to the structure we're coming from, the structure we're coming from is broadly unrecognizable in consumer packaged goods in this country or any other developed market country. The structure that we're going to is broadly recognizable as a best practice kind of route to market. And so that's why it's much more of an effectiveness play.

<Q - **Bryan D. Spillane**>: Okay. Thank you.

<Q - **John Joseph Baumgartner**>: Yeah. Thanks. John Baumgartner, Wells Fargo. Yeah. John Baumgartner, Wells Fargo. Just a question on the emerging markets. It sounds like from your presentations, a lot of focus on small pack sizes mix. You look at the U.S. move to on-the-go, it's coming at a higher cost, at least near-term. So, in your markets, can you talk to the capacity internally now to meet that mix shift or is it more a third-party approach and [ph] embracing for a (01:26:19) short-term margin drag as well.

<A - **Steven A. Cahillane**>: Okay. So that's emerging markets and how we're getting to on-the-go packaging. Did I hear that right?

<Q - **John Joseph Baumgartner**>: Right. Internal versus external.

<A - **Steven A. Cahillane**>: [indiscernible] (01:26:26)

<A - **Maria Fernanda Mejia Campuzano**>: I think our situation is quite different than in North America. So, if we look at the bag transformation that Amit and our teams across Latin America have been leading, they were designed to be affordable and sustainably profitable as well. So they were not diluted from a big box cereal concept. So I think we start from a very different point.

As it relates to Parati, the Parati portfolio was designed in large part as a single-serve portfolio. And as we've looked at the Pringles' acquisition, we've become much smarter and more efficient introducing those smaller sizes. So I think our situation is quite different than in the U.S. Amit?

<A - **Amit Banati**>: No, I'd echo that. I think we design bag from magical price points, but I think the key is to design bag starting with the magical price point, but making sure that you're making comparable gross margins. So, I think the construct is to have similar gross margins between your smaller sizes and your larger sizes.

<A - **Steven A. Cahillane**>: Thank you. And part of the – just to build on that, part of the way to think about it as well is, in North America, you're dealing with 100-year old plus company with an installed base of kind of pantry approach. We have closer to a white sheet of paper, so all those learnings and you can design for exactly what you want to be in the present moment.

<Q - **Pablo Zuanic**>: Yeah. Thank you. This is more of a long-term question, Steve, and regarding emerging markets. I mean, how do you think about the Kellogg brand potential in emerging markets? And I think about it in two or three different ways, right. Does it stand for health and wellness? Can you extend it to biscuits in many parts of the world when people necessarily don't know Cheez-It or somewhat your other snack brands?

But at the same time, I see that in Africa, you're using it for noodles, right. You're probably competing with Maggi, Knorr, brands from Nestlé, Unilever and with local brands. I mean what are we trying to do there? Is that Kellogg brand there going to stand for value, for premium noodles, for health and wellness?

And the third related to that, in some parts of the world, in China at least, noodles are a breakfast item, right. I mean, can you make a connection longer term between Kellogg noodles and Kellogg cereal in those type of markets? I don't know if noodles are a breakfast item in Africa. But just talk about – because personally I see a lot of potential for the Kellogg brand in emerging markets for health and wellness, but here the message I'm getting, it's a bit more diluting the brand to some extent.

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<A - **Steven A. Cahillane**>: Yeah, Pablo, thanks for the question. I'll start and then turn it over to Amit and Maria Fernanda. So, in emerging markets, Kellogg's – really, Kellogg's is a very well-known brand, stands for quality, stands for integrity, authenticity, long heritage and tradition, western quality, health and wellness. And so there's a lot that the brand really represents in a very positive fashion. So it can carry a number of things, and you mentioned noodles. And so noodles in many emerging markets, it fills the belly, it's very satiating. Oftentimes, it's used as a breakfast. Oftentimes, it's also used as a snack, and people don't add water and boiling water. So there's a – market-by-market, noodles means different things, but in many emerging markets, the Kellogg brand, because it stands for all those things I just mentioned, can carry quite a significant bit with it. And that's essentially what we're doing. Do want to?

<A - **Amit Banati**>: No, I think, Steve, you've captured it. I think that's what we're trying to do under the Masterbrand. And like I mentioned, I think the core – cereal is always going to be the core of the portfolio. I think we're looking to stretch the brand upwards as well as downwards so that we can serve through that one brand a broader range of consumers and a broader range of occasions in the markets.

## John Renwick

Okay. I think we are out of time and [ph] out of noodles, (01:30:22) frankly. And so if we can, I think we can [ph] move you guys. (01:30:24) Thank you very much and invite Chris Hood to the podium.

## Chris Hood

Okay. Can you all hear me? Good morning, everyone. I'm Chris Hood. I'm the recently appointed North America President. Saw all of you, I think, in 2015, when I was the European President. So it's great to be back and see all of you. Doug VanDeVelde and I today are going to cover the developed parts of our portfolio, which represents about 80% of the company. So I'm going to talk a bit about North America, segue into our frozen business and then talk about developed markets snacks and Doug's going to cover developed markets cereal.

So when you think about our developed markets, as I said, it's about 80% of the company. And in that context, North America represents the vast majority, okay. The other markets that we consider part of our developed market portfolio are the UK, Australia, and in that other box would be countries like France and Italy. We compete in three categories across our developed markets, cereal, snacks and frozen. Frozen's a business that we largely only operate within the context of North America today.

So the way to think about the businesses outside of North America is that they are snacks and cereal businesses. And we're very fortunate to compete in big attractive categories, categories that are highly penetrated, categories that represent big baskets for our retailers, categories that are very frequently purchased. And as you scan across the chart here, you can see the red bars where we compete are some of the biggest categories, especially in the center of the store.

And we also have big and attractive brands, brands that are large, scaled, multi-billion dollar brands, like Pringles that compete on a global basis, all the way down to more insurgent brands like RX, which are high growth and relatively low penetration, as Peter pointed out earlier, massive growth potential. And in the middle, we have a number of brands that are actually competing very effectively. I mean our Pop-Tarts, Rice Krispies, Rice Krispies Treats, Cheez-It, these are brands that are \$500 million to \$1 billion, which we aspire to grow to \$1 billion brands and many of them are growing at quite a strong rate today.

So, in developed markets, just like in emerging markets you saw earlier, we are also deploying for growth. What are we doing in developed markets to deploy for growth? Some of the things you've already seen. We've renovated our portfolio, reduced artificials and naturals. Okay, we are moving into on-the-go package formats and we're doing that across many of our categories. And this is opening up huge new growth opportunities for us in channels, which we weren't available before, and in consumer occasions where we weren't consumed before.

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Our aspiration is to be the best sales and marketing company in our industry, okay. And so we are investing in capabilities in those functions to achieve that aspiration. And we are also investing in our supply chain and service capabilities in order to really align demand with supply, to save a lot of the cost that we've been talking about in the last Q&A, rebuild margin in our on-the-go business and to deliver perfect service to our customers, because as Steve said earlier, until we can get to perfect service with our customers, the service that they want, it's hard for us to have a discussion with them about what a partnership can look like for growth.

So, what are we doing to simplify in North America? We've already talked about a little bit of this in the Q&A, and I'll touch on it and then happy to come back at the end of this Q&A session and answer any more questions that you have. But as Steve said earlier, I mean, we have today fully-integrated business units, and within each of those business units, is a fully set of functions, okay.

And one way to think about it is, within each of those business units, is a set of resources that is essentially trapped. It's very hard to deploy them across the biggest growth opportunities that we have as a company, okay, without making a big intervention. And so one of the things that we're doing is we're eliminating those fully-integrated business units and creating a category-focused organization with commercially-focused general managers, who are solely focused on driving demand creation, profitable share growth, okay. So that will be their focus as we roll forward, profitable share growth in the categories where we compete. And that's the notion of category-specific teams.

We're leveraging full North America support functions and creating a scaled supply chain. What does that mean? That means that we are combining all of our manufacturing operations underneath a single leader in North America and that gives us the ability to drive best practice and scale within our manufacturing operations. We are creating a single leader of our external manufacturing and co-man operations and that gives us the ability to leverage scale, and again, transfer best practices across all of those operations.

Our procurement and logistics are largely the same, but then we're creating a line within our supply chain that is designed to really serve the growth of our category businesses, okay. So we'll have supply chain resources that are there to match demand to supply, especially in the areas of growth from an innovation standpoint. And we're eliminating management layers, okay. So we're taking two full layers out of the organization. This will streamline communication, create a much more agile organization, and one that is much more responsive to changes in the external marketplace.

And as John said earlier, is part of Project K. So – and Fareded will come up and talk about that a little bit later. What are some of the benefits of this? We think that for one, it gives us the ability to drive much more holistic resource allocation on an enterprise wide basis across North America, okay. So instead of looking at the businesses sort of one-by-one and trying to optimize resources within them against the biggest ideas, we can look across the entire North American operation and really focus our resources against the biggest growth opportunities that we have. So that's a big benefit.

Faster decision-making, faster decision-making driven by a flatter organization with shorter lines of communication, and functions all reporting in to me so that we can really drive a very aggressive growth agenda, and a commercial organization that is single-mindedly focused on driving profitable share growth in our categories, so demand creation. So how is that different from the way we're operating today? The general managers in our future world in our commercial structure will have all of the things that you would traditionally consider marketing; innovation, brand marketing, but we'll also drive our RGM program. We'll drive our portfolio management. We'll drive trade allocation across channels. And so, they will own the full suite of demand creation activities, the menu, if you will, that our sales people will sell against.

And then, as we referenced earlier, we're also scaling our North America sales organization. And I just want to come back to a question that was asked earlier, 70%, 70% of our sales people will be calling on the same category against the same buyer that they were before, okay. So it's not a huge disruption in the field. Okay, largely what we are doing is we're taking categories where we have multiple people, portable wholesome snacks is a great example. In the portable wholesome snacks aisle today, we have between four and five people calling on one buyer, okay, because we have Rice Krispies Treats, in some cases Pop-Tarts is in that aisle as well, we've got RXBAR, and we have a whole set of wholesome snacks as well, and Kashi.



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So if you think about that buyer, that buyer is seeing four or five people from the Kellogg Company in any given buying cycle and we think that represents an opportunity. Our customers are telling us that they want a simpler way to interact with us. And by the way, by doing that, it gives us much more scale in the categories where we compete, okay. So that's I think a good example to bring to life what we're doing in sales.

The changes within our sales organization are largely about creating a single voice at the customer level, okay, so we can have somebody who can represent the Kellogg Enterprise across all categories at the customer level, a team leader, if you will, which many companies obviously operate against that structure today. And then – that's the main change really. And then, we're plussing up some of our capabilities in category management and intellectual leadership, if you will, because our aspiration, as I said earlier, is to be the best sales force in our industry.

So those are the main changes I'm happy to come back at the Q&A. I'm sure you [ph] all have (01:39:42) some Q&A, some questions about what we're doing. This is a representation of from-to. As you can see on the left side, vertically integrated business units and what we are moving to from a category standpoint is single category teams. Six different categories focused on demand creation, a sales force that is organized by customer and channel, that's really focused on delivering leadership within our categories, a supply chain that's organized by product platform, okay, with a single manufacturing head, and then an organization that's designed to supply the growth aspects of our portfolio. And then, obviously, we're making some changes to support functions design to align to the overall design.

Now, from a portfolio reshaping standpoint, when we think about this business, the Keebler cones and fruit snacks business, this is a great business, right. I mean, people always say when you start to look at businesses in your portfolio and you decide you do a portfolio review, you often fall in love with those businesses all over again. I mean this is a great business with iconic brands and it's got very high marketing ROI. But in the context of our company, it doesn't rise to the priority level that some of the other businesses do from a growth standpoint.

And I think Steve gave a great example earlier in his opening around the Pringles business within P&G, which was not a high-growth business within P&G, not a business that the company was interested in, investing in because they had alternative places where they could invest for higher return. It's a similar situation for us within Kellogg. This business is a business that can grow in the context of a company that is focused on growing within the cookie category. And so we think it can perform better within the context of a different company.

It's about \$900 million today. And the way to think about that is it's about – it's just over \$700 million in the cookie aspect of the portfolio. These cookies in pie crust business, which is a very nice business, about \$75 million. And fruit snacks in combined across the Kellogg fruit snacks as well as Stretch Island is about \$100 million. And as you can see, some great brands in there, the Keebler brand, obviously, Mother's is a great brand, Famous Amos is a great brand, and Stretch Island is an amazing business that sells – that has an incredible online presence, okay, one of the top movers in Amazon, Stretch Island.

So what are we doing from a developed market standpoint as we pivot to growth? I'm not going to really cover the recent past because you've all been through that. I think what's important here is as you think about cereal, we have stabilized our Canadian business, we have stabilized our UK business, we have stabilized our Australian business and we've slowed the rate of U.S. decline. In fact, we've cut in half between last year and this year in U.S. cereal. We still have some work to do there, but that business is also improving.

And as we look forward, we think there's a big opportunity for us to continue to expand occasion consumption in our cereal business, drive into new pack formats that are – make the brand experience more accessible for new occasions and then expand into new channels as well. So we think there's growth opportunity in this business that is untapped, okay. It may not be double-digit growth, but there is growth opportunity in our cereals business that we plan to go after. And our current progress would indicate that we're being successful in returning that business to stability and low single-digit growth in a number of our developed markets already.

In snacks, our current progress, we have returned the Pringles business to very strong growth on a global basis in this year, which is absolutely fantastic. I've had the good fortune of being associated with this business for 15 years now. And Pringles is having, I think, the best growth year that it's had certainly in any time that I can remember in the 2018

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year on a global basis. It's performing very, very strongly.

We transitioned our U.S. snacks business from DSD to warehouse. That was a monumental effort, a transformation really. And we've invested the savings from that back and accelerating the top line growth of our snacks business. And I'll show you the results from that in a few minutes. In the context, we've also rationalized SKUs, because in the context of a warehouse business, we have to be about power brands, power SKUs and really driving a very effective assortment.

So in the future, as we look forward for our snacks business, we think there's more opportunity to continue to accelerate the growth on this business behind increased brand building support, new pack formats, we've obviously talked about quite a bit, but single-serve and the on-the-go, it continues to be a huge opportunity for us. And we are very confident that as we develop that business that we're going to be able to create a scaled supply chain, which delivers strong margins as well.

RX is a great growth platform for us. You heard Peter talk about it. The sky is the limit relative to the potential for this business. And in the future, we've got a very focused portfolio with big brands in it, brands like Pringles, brands like Cheez-It, brands like RX and Rice Krispies Treats. These are big businesses that are all growing very, very well today and all have big opportunities for further growth via format expansion and innovation.

And in frozen, we have got two big businesses in frozen, Eggo and MorningStar Farms. Both of those businesses are performing very well. We've seen strong growth really behind an innovation and a renovation program. We think the frozen category is really on trend relative to where the consumer is going today. And we're very happy to have the portfolio that we have there is performing very, very well.

So, I'm going to segue and speak for a few minutes about our frozen business. I mean, when we look at the context of our frozen business, it's a relatively small part of the company's portfolio, primarily because it only operates today within the context of North America, okay. But within North America, we're fortunate to have, like I said, two great brands, Special K is – we also compete with Special K in frozen, although many of those SKUs are now coming out. Eggo is a brand that really owns the category where it competes, okay, Syrup Carriers, Frozen Waffles. Eggo defines the category where it competes. This is a business that is growing mid-single-digit now. It's performing extraordinarily well. And we think that, looking forward, it has the potential to continue to grow at the rate that it's growing today.

MorningStar Farms' a business that is on-trend as consumers look to reduce animal protein in their diets, and they plus that up with plant protein because we all need protein sources. MorningStar Farms is a great business that is very well-positioned to take advantage of those tailwinds. We've done some innovation and renovation on it, which has really delivered great results. We'll come on and talk about that in a moment.

This is a category that is on trend. And I think for those of you who follow the frozen category closely, this is not the frozen category of 10 years ago. It's not your Mother's frozen category. 10 years ago, you would have found frozen prepared meals that looked sort of like frozen dinners in kind of aluminum trays and frozen vegetables in this category. Today, there is an enormous amount of innovation happening in frozen. The category is growing again, huge amount of focus on it.

And importantly, as you think about consumer trends toward health and wellness, frozen is very, very well-positioned to take advantage of that, because it hits all consumer trends, clean, simple, natural, food as experience. It's a very convenient offering. And increasingly, strength and energy is coming into the frozen space as well. In fact, protein claims, protein – yeah, protein claims in the frozen category are growing at twice the rate that they are in the balance of food categories.

So how does our portfolio play? It's all consumer trends. We feel great about Eggo. When you look at Eggo and MorningStar Farms here, we're moving to, in some cases, GMO free. We've renovated the business to remove anything that was unnatural, so it's all natural flavors and colors today. And we think the business is very well-positioned for a clean, simple, natural trends.

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Food as experience, if you haven't tried it yet, I recommend that you try the Thick & Fluffy Eggo waffle, which is absolutely delicious, and this chocolate variant of it, in particular, is incredibly indulgent. So I highly recommend it, the food as experience and very indulgent offerings. We think that we've got a platform here that we can innovate on and deliver against that trend.

Convenience, I mean this is a fairly simple concept relative to frozen. You can have variety in your freezer. It is great food. It's good for you and it makes it very simple to prepare a meal for your entire family. A meal-kit that costs less without the work. And strength and energy, I already said this, protein claims growing almost twice as fast as the Center Store Grocery category. And you can see that we are innovating in the protein space as well. And you can see the protein claims that we're starting to make on our products here. This one Vegan Burgers, 27 grams protein, which is a lot of protein in a single serving. So if you're looking to reduce meat-based protein in your diet and increase vegetable-based protein, this is a great offering for you.

So my favorite foods are the Theresa Crumbles, if you haven't had a chance to try those, they're really tremendous. The burgers are absolutely delicious. I eat black bean burger almost every day for lunch. It's a great offering. And actually, my kids love the chicken fingers. They've got great texture and they taste just like chicken. So good offering.

We talked about Eggo and restored growth momentum in Eggo. Eggo is having an absolute tremendous year on top of a great year last year. It's growing share and growing sales. We've renovated in this category. We've removed artificials 2017. We're doing things like innovating on Disney partnerships, where we can do shaped waffles like a frozen partnership that we did. We can do them in the shapes of characters, which obviously drives appeal. We've gotten additional facings from a competitor exit about a year ago and that's really helped our business and given us some tailwinds as well. And then, we've introduced some new innovation around Thick & Fluffy, which, again, is an absolutely tremendous product. And by the way, from a RGM standpoint is a richer mix than the base product as well. So we're looking to innovate in spaces like that as we move forward.

MorningStar Farms, great growth momentum on MorningStar Farms growing share. This is a business, as I said, that's on trend from a consumer standpoint. We've largely completed the portfolio pruning that we started in 2017. We've done some innovation around non-GMO and the removal of artificials, as I said. And we've put brand support – strengthen the brand support back behind this business and it's responding very, very nicely.

So, as we look to invest behind this business, this is a – both of these businesses are brands that respond very well to consumer marketing support and you can see some of the things that we're doing here. The MorningStar Farms truck, the Disney partnerships around the shaped waffles that I talked about earlier. We've got a great new commercial idea around L'Eggo Your Eggo, which is sort of a nod back to where the brand started. And these businesses are responding very, very well.

So in summary, on frozen, we feel like we've got a great portfolio of brands that are on trend in growing categories, the businesses have great momentum, both of them are growing share, and we're on track for low single-digit growth over time on frozen.

Turning to snacks, I think snacks is the biggest portion of our portfolio, okay, the biggest portion of our portfolio globally. We happen to have some great brands in this portfolio. And as I said earlier, Pringles, Cheez-It, Rice Krispies Treats, RXBAR. I mean, these are absolutely phenomenal equities and businesses that have big growth potential looking forward.

The DSD exit was a critical unlock for us because it gave us the money that we could invest in driving demand creation behind brand building. So, reinvesting a lot of that savings back into driving accelerated top line growth. And that's what you'll see as we talk about the results in a few minutes. And on-the-go is a platform that we are establishing for growth going forward. So we don't have the cost structure that we want right now, but we are very confident that we can get to a cost structure that is attractive on this business going forward. We know how to build an efficient supply chain. What's much harder, as Steve said earlier, is actually getting to a place where you're growing demand. And in this situation, we feel very confident that we can both accelerate the business in on-the-go formats where, by the way, we're still underdeveloped, and create a supply chain that delivers very attractive returns.

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So developed markets snacks in the context of total Kellogg represents slightly less than 50% of the company. And as you look at that across the markets, it's 80% in the U.S. Why is that, because in snacks overseas in developed markets, it's largely a Pringles business. And in the portfolio, in the U.S., it's a much broader portfolio, which includes a pretty big bars business, a pretty big crackers business, the cookies business would be in here today, as well as Pringles. Okay.

So, a much broader portfolio within the context of the U.S. and we feel great about this category. You've seen this data I'm sure from other manufacturers in the snacks category, snacks business to snacks category is outpacing center store growth around the world and it's projected to outpace center store growth for the foreseeable future. It's a very attractive category for us to play and we feel like we've got great brands that give us some advantage.

These are some of the brands that we have. We've got big brands, as I said. We have some brands like Keebler, Nutri-Grain and Club, where we've sustained investment after the DSD exit for the first time in years, and those brands are responding nicely. And then, we have our own challenger brands in the portfolio. We've talked about our RX. By the way, Pure Organic is a great brand that we acquired several years ago, which is positioned for very, very strong growth in the future.

The W.K. Kellogg brand is a brand that we've launched in Europe, which is a healthy natural brand. And this is an equity that we think we can really leverage in Europe to deliver against healthy natural consumer trends in the bar space as well, and in cereal, by the way.

So, as you think about the DSD exit, where were we? We were in a place where we had a very, I shouldn't say narrowly focused business, because we were focused on the majority of the market from a channel standpoint, but all of the growth was happening outside of the channels where we were focused. We had a large scaled food/mass route-to-market system, but consumers were migrating into multiple channels, and in particular, channels where on-the-go-formats we're growing significantly.

We didn't have a lot of P&L room for investment behind these businesses, okay, behind these brands. We've got quite a broad portfolio and we needed to create the fuel, if you will, to invest behind them so that we could reaccelerate top line growth. And as you think about retailers, most retailers were shifting from a decentralized model of 10 to 15 years ago to a much more headquarter control around assortment, which reduced the amount of advantage that a DSD system could give us, and we had too many SKUs.

So, today, we're seeing improved consumption performance behind the investment that we've made on these brands. We have fewer and stronger SKUs. We've made great progress from that standpoint, higher margins for us, higher margins for retailers. And obviously, we've got work to do on the on-the-go piece and we'll come back and talk about that. And it's working, right.

So these are the main brands in our portfolio. And you can see, this is consumption growth year-to-date on the bottom line, and you can see Cheez-It, Pringles, Rice Krispies Treats, 20% year-to-date on consumption, Famous Amos. So these brands are all growing year-to-date from a consumption standpoint, okay. And that's a great indication of the success of the investments that we've made behind these brands with the investment to fuel for that investment coming from the DSD exit.

And when we look at the fundamentals, we are increasing velocities on our SKUs and we are improving our quality merchandizing. So one of the big questions, as we exited DSD, was with the reduction in in-store presence, will we be able to sustain the same level of quality merchandizing that we had prior to the DSD exit. And we're very proud of the fact that actually we're improving our quality merchandizing, feature and display merchandizing, and the brands are accelerating from a velocity standpoint as a result.

Consumption and share performance is improving pretty much across all of the categories where we compete. Cookies is the one laggard, but actually cookies you can see is stabilizing as well. All of the other categories where we compete, we're seeing improved consumption and improved share performance. So I think when we look back, we would say this was absolutely the right move for us. It's created the capability now for us to do things like exit the cookies business. It's allowed us to reinvest a lot of that savings in strengthening our brands and driving velocities and shares in



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store. And it aligns with the way most of our customers want to see our businesses today from a portfolio standpoint.

So shifting gears, Pringles, as I said earlier, is absolutely on a tear. These are the year-to-date consumption results across the biggest markets where we compete from a Pringles standpoint. And I can say pretty much without a doubt that I've never seen numbers like this from a consumption standpoint on such a broad-based basis for Pringles. The growth has been absolutely phenomenal in 2018.

And sure in the base, there were some disruptions, but actually – and those were primarily in the UK and in France, where you can see the growth rates coming back, but when you look broadly across the marketplace, we have really significantly accelerated the Pringles business this year. And that's come on the back of a significant investment in brand building. This is a brand that really responds to big scale marketing: Super Bowl, the World Cup, and really orienting ourselves with retailers around big scale events, driving big displays and investing in increased level of brand building around big ideas.

And really, it's not a complicated business in that sense. It's always been a warehouse business with strong SKUs that respond because it's a great product. It responds phenomenally to – because it's an [ph] impulse (01:59:46) business, to visibility in store, so display and increased brand building. And if you do those three things and you do them right, the business grows and that's what we're seeing.

And we're expanding Pringles into new pack formats, okay. So, six years ago when Kellogg bought this business, this was a brand that largely competed around the world. We had some small cans and we had Snack Stacks, but we didn't – we were really constrained from a capacity standpoint. We've invested a lot in small size capacity both on Snack Stacks and on small cans in order to increase the brand's presence in channels where it wasn't available before. And we're seeing significant growth on small sizes on Pringles.

And flavor, this is a brand that has a great flavor innovation program, whether it's champagne flavor or a crab flavor or paprika. We have I think three different versions of paprika in Germany, ketchup flavor. You could do all kinds of interesting things with this brand because the seasoning is applied at the end of the process. And the product is so delicious and so perfect that you can put any kind of seasoning on it and replicate pretty much any experience. And that is the notion that the flavor stacking idea that we launched last Super Bowl was based on. Not only is the brand and the product perfect, but you can combine them into different combinations and drive strong consumer engagement with stacking.

So, limited-time offerings, LTOs, which we can play a lot around with. And one of the things we've discovered is that when you put a limited-time offering in the marketplace on this brand, people buy it because they know it's not going to be there for long. One that we've just recently launched is a Thanksgiving flavor of Pringles, which sold out in a very short period of time at a large retailer just this week. So LTOs are – and creating fresh food [ph] news (02:01:45) in rotation is a critical part of what we're trying to do on the brand and then new food forms. So Wavy is a new textural experience, which we'll be launching – actually, we'll start shipping in December on Pringles. And Rice is the product that we'll be launching as well, which actually delivers slightly different textural experience, a very clean mouth feel. And you can see that we're combining that with some Asian flavor variances. So concept and seasoning innovation are very powerful engine for this brand.

And in-store activation, I've already talked about, but these big gravity feed displays like you see in the left picture here, whenever we put those in, we usually see in the first year double-digit growth from a velocity standpoint, so they pay out quite quickly for us. And then, partnerships with other big brands, particularly in the beverage space, have also been very, very productive for us. And that's what you see on the right.

On wholesome snacks, RX has been the big news for us. Peter talked about that, so I won't go into that. But suffice to say, I think that we feel great about the growth potential for this business, about the results that it's delivering and about the team that's come along with it.

We're sustaining momentum in Rice Krispies Treats, as I said earlier. I showed you the numbers, Rice Krispies Treats, I mean, who knew. I mean, this is a business that's growing between 10% and 20% on consumption this year pretty much every period, so absolutely phenomenal progress there. And we have some new innovation that we're launching

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on Rice Krispies Treats and I encourage you to try it. The Poppers are absolutely phenomenal, incredibly indulgent. So it's a Rice Krispies Treats that's basically coated with a chocolate coating in a small bite size format available in bags, like you see here. And if you haven't tried them, I highly recommend them. I would recommend you only take one bag because if you take two, you'll eat the whole thing.

So we're investing in protein. And actually, the protein variants on our Special K bars business are performing very, very well. We're investing in protein in our bars like on the Bear Naked portfolio as well, and we're investing behind natural and organic. So we think that we have the right spaces covered as we move forward in wholesome snacks, and we're looking to accelerate this business as we roll forward.

Now, on-the-go, as we've discussed in the Q&A earlier, I mean, this has been a business that frankly – a portion of our business that frankly has exceeded our expectations from a growth standpoint. And what that's led to is a lot of actions that we've had to put in place in order to supply that growth and the short-term actions that we've had to take in order to supply that growth have not come cheap, okay. So we've had to go out and get additional co-mans onboard.

And then, one way to think about on-the-go formats is if you think about variety packs, I think is a good example. So in a variety pack format we might have cookies, crackers and Pringles in a single variety pack that goes out. Each of those is produced at a different plant within our network. They're transported into a single co-manufacturing site to be assembled. It cost us money to assemble them in that co-manufacturing or co-packing site, then they're transported out again to the customer. And so there's a lot of cost in that system, cost that we believe that we can take out. We already have a plan that we're working on, which we'll put in place across next year because it requires capital investment to significantly improve the margins on these formats.

But in the context of what I just said, think about all of the freight, so not only is it a costly system, but freight inflation has also been significant this year. And all of the transportation required in order to move the product around has also been a significant headwind for us. The good news is that we've got a great demand stream here. The great demand stream, and we know how to build a profitable supply chain and we're on it. And we feel very confident about our ability to do it.

I've really just covered this slide. I think on the right hand side, we are winning new shelf and front-end placements every day, which is great, and the business is significantly accelerating behind that. We're investing, as I said, in in-house packing capacity and other efficiencies to improve the margin. And we're executing a strong program of our RGM action, which we announced a couple of weeks ago to our customer base, not just on on-the-go formats but broadly across our portfolio.

Some other things that we've done in order to deliver new capability. From a sales standpoint, we've created a single retail sales team. [ph] So, well, we (02:06:30) make sense, right, that we have a scaled portfolio across our company. We have people in the store every day. We want those people to call on the entire Kellogg portfolio when they're in that store. And there's significant efficiency that we were able to deliver behind that and we reinvested that efficiency in increased store coverage, okay. So our A level stores, our highest productivity stores, are getting more frequent coverage today than they were before we launched this initiative. So effectiveness and efficiency, more time in stores, less time on the road.

We're doing a lot more cross-category promotions to really leverage the scale across our portfolio. And we've strengthened our reach in Specialty Channels, where we've had great success over the years. We've dramatically expanded the number of C-store outlets. And we've launched a B2B e-commerce business there, which is already a very nice business for us and one that we plan to significantly accelerate in the future.

And we're launching a lot of new innovation. I encourage you to try the Cheez-It Snap'd product, which is back there on the counter. That's a new innovation that we're launching in December. The consumer response has been absolutely phenomenal and we think this is a huge idea. Wavy, as I said, is coming in. Rice Krispies Poppers and we have an Elfin Mix on the Keebler portfolio that we're launching as well.

The combination of all of these innovations adds up to a pretty big number for us next year and we've got good brand support going in behind it. I think on our snacks portfolio, I can safely say that it's the biggest and most aggressive

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innovation program that we've had for many, many years. So we're really, really excited about it.

Pack formats, we've already talked about. We've invested in a lot of new pack formats to give us access to new consumer occasions. That's demand that's coming online very, very quickly. We just need to build a profitable supply chain. We know how to do that and we're on it. And then, we're expanding distribution on brands like RX, on brands like Pure Organic and there's still a lot of opportunity for us to continue to drive those businesses.

So in summary on our snacks business, we feel great about the portfolio of brands that we have. We've got big advantaged brands that compete in high-growth categories. We've successfully completed the DSD exit and reinvested a lot of the savings from that into further strengthening our brands and we're seeing that come through in increased velocity and in higher quality merchandising. Our U.S. market performance is on an upswing from a consumption and a sales standpoint. So we feel great about the future across our categories in terms of top line.

We're sustaining our Pringles momentum worldwide. Best year, I think, from a growth standpoint that we've seen on Pringles certainly in the 15 years that I've been associated with the business, and that's on top of a 9% CAGR since Kellogg bought the business globally. So that brand has just grown phenomenally. On-the-go expansion is a new growth platform for us. We have work to do on the supply chain. We know how to do it. We're very confident that we're going to be able to restore the margin that's needed there. And we're on track for low single-digit growth over time as we look at our developed markets business.

So with that, I'll turn it over to Doug to go over developed markets cereal.

## Doug VanDeVelde

Great. Thanks, Chris. Good morning, everyone. So, we're going to transition now and talk about developed markets cereal. So, for context, just a reminder, developed markets cereal is a little over 25% of the company's sales. And within that 25%, the U.S. cereal business is just over a 50%, okay, which means the international business is over 40% and is a big part of our developed markets cereal. We're going to talk about all that here this morning.

So, basic message this morning is that cereal is a very important business. It's important to consumers. It's important to customers. It's important to us. And we have big expandable brands, brands that have household penetration, salience, resonance, and when we have good ideas and good execution, these brands grow.

We're already stabilizing our core international developed cereal markets by executing our playbook. And we've got signs of progress in the U.S. and fully expect to have a stable performance there as well. And right now, we're investing in the foundation of this business so that we'll have stability over time.

So I think first a look at the category. Cereal is an enduring category. I mean there's a reason cereal as a category has been around for over 100 years. It brings a unique combination of taste, nutrition, convenience and affordability that the combination of those attributes. That's why cereal has huge household penetration and that's why it will endure. How we deliver those attributes will change over time as consumer needs change, but that basic fundamental package of attributes will endure.

The other thing, cereal is a versatile food. It's actually very consistent with the food culture that's happening today. It's very mixable. This happens every day right here in this building. Kids come in after school, they go to the back. They get a bowl. They mix their Froot Loops with some Apple Jacks, put a little Corn Pops on that, maybe some fruit on top of that. They snap a picture of it, post it to their Instagram so all their friends can see what they've made and then they enjoy their bowl of cereal. Very consistent with today's culture and cereal is a big part of that. It's very portable.

And also, cereal's consumed both as a meal and a snack. And I'll get into this in a second because this is a big part of what is our growth opportunity going forward. High household penetration, cereal in these markets is anywhere from 87% to 95% household penetration. Think about that? If you go down the street and you go into 100 households, nine out of 10 will have had cereal in that household at some point during the year. And it's a repertoire category.

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So, people usually have between three and four boxes in their household. There aren't a lot of categories that have that high level of penetration with that level of repertoire. It's an important category to our retailers because consumers want it. It's on the shopping list. It drives traffic. It also drives basket size. A basket with cereal is two times bigger than a basket without. And for us, it really responds to brand building. Innovation, marketing, good ideas really can drive these brands and it's why this category has a relatively low private-label penetration compared to others.

So I wanted to kind of take a bit of a historical look on the category and really try and land the point that this category ebbs and flows over time with changing health and wellness food beliefs, but broadly, it's a stable category, okay. So I've taken a 20 year look here at the U.S. cereal category. And if you take the CAGR for that full 20 years, it's roughly flat, plus 0.2% CAGR over that time. There are some ups and downs with changing food beliefs.

So kind of in the 2000 to 2003 time period, when low-carb was big, South Beach Diet came out, the cereal category declined, but only slightly, less than 1%. And then, in the 2004 to 2009 timeframe, those were the years that cereal was very on trend, low-fat and low-calorie was in. Cereal fit right into that. It was the heyday of Special K and the category grew 2% over that timeframe.

Now, most recently, there's been a lot of protein seeking. Starting in 2014, diets kind of went off trend. People have been protein seeking, category dipped down maybe 2% over that timeframe. But even now, as we look here in 2018, the measured category is down 1.5%, which is a big improvement over where it's been, and there's a non-measured effect in that. So if you add the non-measured channels into that, probably down more like 1%. So we're really confident that this can be a stable category over time and we're really focused to create those kind of health and wellness inflection points because that's what's going to get the category growing again.

As we've gone through our Deploy for Growth strategy, one of the big elements is Win Through Occasions, and when you put the occasion lens on cereal, it's exciting. The key occasions for cereal, obviously, breakfast is number one. And when you look at, at-home breakfast, it's a huge occasion across our biggest four cereal markets and retail sales approaching \$100 billion in sales.

Cereal is the number one food still eaten in at-home breakfast. Biggest to the second by a long shot, but it's only a 15% share of that occasion. So there is a lot of room for cereal to grow share of that at-home breakfast occasion. And we're going to do that through really amplifying our health and wellness attributes of our brands.

Second thing, within breakfast, away-from-home is a growing occasion within breakfast. More people eating breakfast away-from-home. Cereal here is underdeveloped. We have a very aggressive innovation and channel expansion plan that are going to help us take advantage of, of this away-from-home breakfast occasion. But probably the most exciting part of this chart is the fact that cereal as a snack in the snacking occasion is a big growth opportunity.

So, the snacking occasion is even bigger than the breakfast occasion, 50% or 60% bigger. Cereal has a relatively low share of that occasion, mid-single-digits. However, the business is already growing double-digit, okay. Because of the macro trends of more snacks, less meals, mobile lifestyle, people eating less more often throughout the day, people working more, commuting longer, urbanization, for all those reasons people are eating more cereal in the evening than they ever have. And this is going to be a big growth business for us going forward.

Okay. So, what are we doing to stabilize cereal? We have what we call the developed-market cereal playbook, very straight forward based on three components. One is really leverage the strength of our brands. We have an advantaged portfolio. And when we have good ideas and good execution, our brands can grow. And we've taken a new very progressive and data analytics approach to media. We've been very agile in the way we treat media.

Leading innovation, this starts with the core. The core of the business, renovating the core, keeping those core brands healthy, and then in a very laser targeted way, innovating into on-trend spaces, and I'll show you some of that. And then, lastly and very importantly, creating win-win partnerships with our customers, really showing up and being the thought leader for how we grow the category, how we get more people to eat more cereal more often. And customers seeing us as their primary partner to go and drive that. Then, obviously, the execution of perfect store, perfect service, relentless focus on the shelf and a relentless focus on RGM.



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So we've developed this playbook. And where we've executed this playbook, we're actually seeing very good results. So I'm going to start with an example, which is Australia. We had a very – we had a year in 2015, where we got off our game. We weren't executing the playbook, did not have a good year. We went in, in 2016 and actually put this playbook in place, really started to codify the playbook, and we've really seen now three consecutive years of sequential improvement in the business. It started again with our core brands.

I'll give you a quick example, Nutri-Grain, which is a cereal brand in Australia. It's actually our biggest cereal brand, almost a 10% share, stands for energy. It's been a long-time sponsor of things like Iron Man, kids love and aspire to Nutri-Grain. We kind of got away from that brand and what that food does or is and what it does for consumers. We went back in and solidified the credential of the food, eliminated sum of sugar, and now we're even claiming that it's the highest protein cereal in the category and that brand has been a driver of our growth. And I only tell you that story to just illustrate that these brands with the right ideas and the right execution can really grow.

Same thing on winning customer partnerships, two big customers there in Australia, we went in and we became the thought leader. And then, we had some very good and targeted innovation, especially on our Be Natural brand, which is like the Kashi of Australia, and that has really turned around. And when you see the results, we've gone from a place of decline to now we're actually growing our sales, growing our consumption and growing our share in Australia.

Similarly in the UK, same kind of thing, got off our game in 2016, went in, put the playbook in place in 2017, saw a big sequential improvement and now, here in 2018, again, improvement. We're going to end up growing sales and growing share in the UK as well. And again, not complicated stuff. In the UK, Corn Flakes is an iconic brand. Anybody knows, the UK knows that everybody grew up eating Corn Flakes in the UK. But we had kind of lost our love of Corn Flakes and we got back on to a very simple idea. We started a national debate on what is the perfect bowl of Corn Flakes, how do you like your Corn Flakes, hot milk, cold milk, with berries, with nuts, started a big kind of debate about that, really engaged consumers, made Corn Flakes relevant again, and the brand was a big driver of our growth.

Again, tell you that just to illustrate that these brands with good ideas can grow. Same thing on leading innovation and winning customer partnerships, it's really been a transformation in the UK. Our customers now see us as a thought leader. We're on the front-end of the health and wellness agenda with them and they're really backing us as a result.

So if you look at the playbook, one of the big foundations in the playbook is that we have an advantaged portfolio of brands. So when you have 90-plus-percent household penetration, there is a broad spectrum of consumer needs that you have to meet. Not everybody wants the same thing. And so we have a very precise segmentation that we use. It kind of very simply has taste and fun on the left, it has kind of simple health in the middle and it has natural and progressive on the right.

And to really meet the full set of category consumer needs, you have to have brands that play across all of that. And that's where we have an advantage, that's where our portfolio is advantaged. And when we're firing on all cylinders, as we call it, we are satisfying consumer needs in each of these segments. It's an "and" strategy. You can't be only one and not the other. You've got to fire on all cylinders. And when we do that, we can grow.

A big topic lately on our strong brand strategy has been Special K. I mean, Special K was a big driver of growth for us when low-fat and low-cal was on trend. When diets went off-trend in 2014, Special K got hit hard and was a big driver of our decline honestly for a few years. We've set a goal now to stabilize that brand. And this shows that across the core four markets, we've made significant improvement in 2018 versus 2017. We're basically repositioning the brand from a low-cal, low-fat diet brand to a brand that has the nutrition to feed strength, to give you the energy to live your life at full strength. And highlighting nutrients that we have in the food, like protein, like iron, like vitamin D, and a lot of innovation that we'll do going forward. Go right in through the front door, tell people what's in the food and what it does for them. And when we've done that, the brand has really responded. We've probably been at it the longest in the UK. And in the UK, Special K will grow consumption and share in 2018.

Similar story on the natural brands, we made a concerted effort to really grow our share in the natural segment over time. And when you look at this, we have Kashi and Bear Naked in the U.S., Kashi in Canada, a brand called Be Natural in Australia, and a new brand we've just launched into Europe called W.K. Kellogg, we're actually growing

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share now on all of those natural brands. It's a key part of the segmentation, a part that is growing and will grow in the future. And we feel like we're now on our game across these brands in those markets.

Another big part of our strong brand strategy is to really amplify our health and wellness credentials. Chris talked a lot about clean label. We're eliminating artificials, artificial flavors and colors. We're on our commitment to be out of that by the end of this year. We're going to really start communicating that in our pack to consumers.

We also have an active program to reduce sugar in our foods. So our strength here is give consumers more of what they want and less of what they don't. And in some cases, some consumers want less sugar. We've got a very active program here in the UK. We've taken 30% of sugar out of Coco Pops, which is our biggest kid brand. The taste is the same. It's actually a little more chocolaty and maybe even a little better in some people's opinion. We're in market with this. Consumers love it, but even more importantly, customers love it because we're on the front foot of creating the future for the category. We've also launched a No Added Sugar Granola in the UK, which is also performing well.

On the other side of this is really bring the tangible benefits of our brands to life for consumers on Special K. As I said, what's in the food, what it does for them? Nutri-Grain in Australia, highest protein cereal. And then, in the area of digestive wellness, fiber contributes to digestive wellness. Digestive wellness more and more scientifically is being connected to overall wellness. So, fiber has a real role to play in creating the future of overall wellness. Got a great program here, illustrated in Australia, that ask consumers is your gut fiber fit and really starts to educate. The other thing here is a real focus on plant nutrition and plant power.

So, big question here is, okay, that's great. The international businesses are stable to growing. What's going on in the U.S.? So, if you look at this chart, this is basically the Core 4 performance. You can see that in the U.S., we've got improvement in 2018 versus where we were in 2017. And if you look into Nielsen today, you would see that our share is down two tenths and the impact of the Honey Smacks recall, which we have talked previously, is two tenths. So essentially, without the Honey Smacks recall, we would be at flat share in the U.S. today.

So we're making progress and a lot of that progress comes from the relentless focus on the core, the core six brands. If you look at the far end of this chart, you can see we went from losing share on our core six brands last year to growing share on our core six brands this year. And that's driven by a big turnaround in Special K, continued growth on Frosted Flakes, Raisin Bran, big turnaround on Mini-Wheats, Froot Loops continues to grow, and also on Kashi. So, I think as we think about the playbook, so important and we continue to drive these core six brands.

All right. So, if you look at how we apply the playbook going forward. Through the lens of Deploy for Growth, three components. Strong brands, we'll continue to amplify health and wellness. It's an "and" strategy, so we'll continue to dive our taste and fun brands on the left side. And importantly, we'll continue to drive snacking and out-of-breakfast consumption.

Occasions will be a big enabler. We'll lead with innovation. We have four focus areas on innovation, which I'll talk about here in a minute. And critically, very critically, we'll continue to develop win-win partnerships with customers. We've got an important initiative on aisle shoppability that I'll talk about, and we'll continue to regain some distribution.

So, just a page on each of these. Amplifying health and wellness, if you think about our core brands, Raisin Bran, Mini-Wheats, Special K, Kashi. This is really important for us in the health and wellness area. And we've got big ideas now on all these brands, whether it be heart health on Raisin Bran, Mini-Wheats, which is all about big food for big days, my personal favorite Mini-Wheats, eat it most mornings, Special K has the nutrition to power your real life, and Kashi, the natural brand of choice.

In the middle, we'll continue to drive taste and fun. Frosted Flakes, highly resonate with consumers, a lot of innovation, a lot of fun on Froot Loops. And our licensing strategy, which gives a lot of traction, bring some excitement to the aisle, kind of gets that extra box in the basket. Frozen 2's coming out this year – next year, big movie. I'm sure we'll do a huge business on our Frozen 2 cereal just like we did on Unicorn this year. We've got Lúcio-Oh's. Lúcio-Oh is a gaming character, got a cereal based on that.

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So all of that continue to drive taste and fun, build the repertoire, drive consumption. And then lastly here, through the lens of our brands, grow evening snacking through Froot Loops, through Crunchy Nut in the UK, and then also through packs and formats.

Leading innovation, as I said, it all starts with the core brands and then we have a laser-focused approach to creating disruptive innovation, okay. And that's based on four areas. First area is around digestive wellness. We've got a launch here in the U.S., already started to roll out, of a new brand called Happy Inside. It's a digestive wellness brand. It's a 3-in-1. It's first brand to bring together prebiotics, probiotics and fiber into one product to really help people improve their digestive wellness.

In the area of hyper convenience, we've got a new brand called joyböl, which we're starting to run out in – to roll out in targeted channels. I talked about away from home breakfast. One of the key occasions we found is this thing we called deskfest, breakfast at your desk. I'm sure a lot of you can relate to that. You show up at work. You haven't eaten. You got a lot to do. What are you going to eat? So joyböl is a smoothie bowl that you add a little bit of cold water to, it has a spoon, you mix it up and you get an absolutely delicious 12 gram of protein, clean label smoothie bowl that you can eat right there at your desk. Starting to roll that out. I think that's in your packets as well.

Strength and energy, we've got a disruptive idea that we've put into test in Australia around a Special K fitness line. These are 20 gram protein products designed to fit into the lifestyle of people who're trying to work out more and be more fit, real food. And then, we've also got an interesting protein play around the Nutri-Grain brand, which are protein pouches, which have like a protein [ph] puddingy (02:29:28) consistence that kids can then just shoot basically for protein off to a great start.

And then lastly in next generation natural, a lot of work, more work on No Sugar Added Granola, a real focused effort around plant protein. GOLEAN, which is a big driver of our Kashi business, is the biggest plant protein cereal out there today. It is amazing food. People who are trying to eat less dairy and less meat protein and more plant protein, GOLEAN cereal is fantastic and will continue to grow in that area. And we've just launched Kashi for kids, which is also off to a great start.

Lastly, big initiative is to improve our aisle shoppability. So this is a U.S. initiative in 2019. We actually executed something very similar to this as part of the UK turnaround. Four components. One is simplified sizing. So any of you who shop the cereal aisle, on average, there's 200 items in the cereal aisle. Think about anything that you want to buy that you have 200 choices for. On one hand, it's good, a lot to choose from. On the other hand, one barrier can be complexity.

So we're really simplifying our sizing and simplifying the way the consumer shops the aisle. Steve showed the chart of the medium size and how it was really hard to tell what size was what. Now, we're going to go to a very uniform standard three sizes, make it a lot easier for the consumer to see and to shop.

What will come with that is harmonized cube sizes, which will make us more efficient over time. We've also moved to reduce case packs. Reduced case packs will allow us to match brands with velocity, with channels, with customers, and actually help us improve our distribution over time.

Within this, we've got an improved pricing architecture, a real focus on RGM here and getting price realization, and all this will net an optimized assortment, so a more productive shelf. Our best and highest turning SKUs in the most distribution possible. This is an example Steve show this chart of how today if you went in, it would be very hard to identify what is the medium size, what is the large size. And as we go forward in the after, it'll be very clear, the sizing will be obvious for the consumer.

So, key to this is that we are in cereal investing in our Deploy for Growth strategy. We're investing in continued renovation of the core clean label, less sugar, more positive attributes like protein. We're investing in differentiated innovation. We're launching new brands, Happy Inside. We're launching new brand, joyböl.

We're going to increase our communication around our wellness attributes. I talked about Mini-Wheats. This year, we got to a new idea on Mini-Wheats, which is that Mini-Wheats is big food for big days. We increased our brand building

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investment around Mini-Wheats and we saw the brand respond, we saw the ROI improved.

And lastly, as I just mentioned, we're investing in simplifying the shelf and simplifying the shopping experience for consumer.

So, I think in summary, cereal continues to be an important business for us. We have big, expandable iconic brands that when we put good ideas and good execution against them, they grow. We've got a playbook. We're already stabilizing the core international markets behind the playbook and putting our playbook in the U.S. and we're already seeing signs of progress. And we're very confident as we invest in a stable foundation that this will be a stable business for us over time.

Okay. Good.

## Q&A

<A - **John Renwick**>: [indiscernible] (02:33:10). We'll start with Michael right here.

<Q - **Michael S. Lavery**>: Thank you. Michael Lavery, Piper Jaffray. You mentioned in cereal some of the under penetration and how consumers are having more breakfast occasions away from home. How much is that a risk versus an opportunity because millennials also seem convinced that cereal's not convenient? How do you think about tackling that and what are the real challenges there?

<A - **Doug VanDeVelde**>: Yeah. So, I think we see it as an opportunity. I mean there is no reason that cereal can't be relevant in that occasion. Comes down to three things. Channels, so having the right channel penetration. One of the big places kids are eating more cereal now is at school. A lot of counties have cereal at school programs. We're penetrating that in channels.

Second thing is packaging. Having the right pack formats. Nobody is going to bring the big 1 kilo box with them out of home, so upping our game on sachets and cups. And then lastly, is innovating into the specific occasions with joyböl being an example of that. So, we see it as an opportunity. We see it as a way actually cereal can grow.

<Q - **Michael S. Lavery**>: And just since you mentioned joyböl, that's not a cereal though – or I mean, is it a cereal smoothie or a smoothie...

<A - **Doug VanDeVelde**>: Yeah. It has granola in it. So it's kind of a granola smoothie ball.

<Q - **Michael S. Lavery**>: Okay. Thank you.

<A - **John Renwick**>: [indiscernible] (02:34:42)

<Q - **Rob Dickerson**>: Thanks. Rob Dickerson from Deutsche Bank. Just kind of back to the conversation around the divestments or the potential divestments that were announced. I am curious just, I guess, how you got or how you picked those brands. I mean, obviously, it seems like the cookie category has been a bit under pressure. There is other competition in the marketplace who decided not allocate resources more to cookies, but you still own Pop-Tarts. We haven't heard a lot about Pop-Tarts today. So, kind of, overall, just I am curious why specifically the brands you mentioned and then also are there other possibilities, right. Are there other brands in the portfolio that you will continue to monitor such that we could hear about other incremental divestments? Thanks.

<A - **Steven A. Cahillane**>: Yeah. No, thanks for the question. We did an entire portfolio review as part of shaping the growth portfolio element of our strategy. Pop-Tarts is a fantastic brand. We probably don't talk enough about it. So, Dough, next year?

<A - **Doug VanDeVelde**>: Yeah, Pop-Tarts. All right.

<A - **Steven A. Cahillane**>: So a fantastic brand, highly penetrated, very relevant, very responsive to investments and innovation, and so a great brand. So make no mistake about that. But in the entirety of the portfolio review, the brands that we came up with, I mean, you can look and say, so cookies was an obvious one for us in terms of, in the United



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States, we're not really focused on the cookies business. Fruit snacks – again, I don't want to [ph] disparage any (02:36:21) brands. People have worked very hard in these brands. But as we went through, they were the ones where we realized they're not going to rise to the level of attention or investment as a Pringles, a Pop-Tarts, our cereal business, Cheez-It and so forth. So it was a fulsome review of the portfolio with also a recognition that as we think about shaping a growth portfolio, whether that be RXBAR or developing markets as well, there's additions that we'll look forward to in the future. And this subtraction just helps us think about having a portfolio that is more growth oriented.

**<Q - Alexia Jane Howard>**: Hi, there. Alexia Howard from Bernstein. Chris, could you talk a little bit about the retailer environment here in the U.S., particularly as some of the e-commerce channel start to take off? One of the features of this earnings season from you and a number of other companies is talking a lot about retailer investments. And there seems to be across a whole swath of things, better shelf space, more information from the retailers, different types of packs on the shelf that are margin dilutive. Can you talk about why is this happening now? And particularly around e-commerce, is that a big investment and margin dilutive for you? Thank you.

**<A - Chris Hood>**: Yeah. I'll start with e-commerce question actually. I left that out of the changes that we're making. Monica is going to come up and talk about that a little bit later. But as part of our redesign within our North American structure, we're making a big investment – not a big investment, but an investment in e-commerce capability that to really strengthen not only our ability to call on and serve omni-channel players but also pure play as well as B2B. And in B2B, in particular, we think there's a huge opportunity for growth. We already have a pretty significant business there today, but there's a big opportunity for us to continue to accelerate.

I think relative to the retail environment, I think – I mean, I spent the last six years in Europe. It's a pretty tough environment there, I would say. I've actually been pleasantly surprised as I've come back here about the more collaborative nature, if you will, of U.S. retailers, in particular. Sure, they're tough, but I find them to be very transparent about what it is that they want. And that puts us in a position where we can understand that. We can either choose to invest to create growth stream based on a model that they're pushing forward or we can come back with a different proposal that meets the need, but perhaps it is better for us as a company. And I think we have all those discussions.

So I think Steve said this, this morning, I think that the key for us is creating value in our categories so that we're not arguing about the – a finite amount of profit pool is absolutely critical. So being on a growth agenda for us and investing in growth with retailers is a much better place for us to be than arguing about margin. And we're fortunate today, as we look at the brand performance that we've got on brands like Cheez-It, brands like Rice Krispies Treats, Pringles, our cereal business coming back to growth, our Kashi cereal business is growing share and growing top line on cereal, that leads to a whole different discussion with retailers we find about how we – because everyone is looking for growth. How we can work together to accelerate that and what are the investments required? And that's a discussion that's good for both of us, instead of why I need this, I need that and I don't like how much money you're making. I mean that's a much more difficult discussion than talking about how we're sharing the fruits of growth.

**<A - John Renwick>**: [indiscernible] (02:40:34)

**<Q>**: You talked about the core six brands. I was wondering, would there be an opportunity to create another brand and call it the core seven, core eight. Are there brands on the cusp that could be transitioned into that? And what would be the criteria for that and which brands would fulfill that need?

**<A - Doug VanDeVelde>**: Yeah. So I think in the case, we look for the portfolio of brands that are the most incremental to each other and the most incremental to the portfolio. And that's how we get to essentially that core six plus Kashi, so with that Kashi would be the seventh. After that, we have other brands, but they are less incremental to the total portfolio. So we're going to get more incrementality by growing those six plus Kashi more than we would if we added another brand to it.

**<Q>**: So you don't see any other brands transitioning into that that might be a sneak up or anything like that?

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<A - **Doug VanDeVelde**>: I mean not at this point. We've got the laser-focused innovations. Those would be a priority, too, like Happy Inside, but not beyond that.

<A - **John Renwick**>: [indiscernible] (02:41:33) here Bryan.

<Q - **Bryan D. Spillane**>: All right. Thanks. Bryan Spillane, Bank of America Merrill Lynch. Chris, a couple of questions for you just around the on-the-go packs. One, can you give us a sense of the growth this year? So how it's sort of grown more than expected? How much of this come from on-the-go packs and large format multi-pack versus immediate consumption, single-serve channels?

<A - **Chris Hood**>: Yeah. I mean, it's growing double-digit. Yeah. And I think we had expected high single-digit growth, so significantly higher than we expected. Largely, we're finding that that consumption is incremental because it serves a different occasion than the large packs do. So, on-the-go occasions, the immediate consumption occasions, I think that's your question. And so...

<Q - **Bryan D. Spillane**>: I was [ph] going to say, (02:42:20) more just – which channel has grown faster? Has it been on-the-go packs in large format food like multipacks, or has it been in convenience store, immediate consumption channel?

<A - **Chris Hood**>: It's been all of the above. We've seen it in convenience, in the front-end in large store formats, in dollar stores where our pack sizes tend to be a little smaller because they're trying to hit a specific price point. Yeah. I mean, it's really come across the board.

<Q - **Bryan D. Spillane**>: And then, just in terms of the path to getting it to be margin accretive, I guess, aside from the packaging, bringing more the packing in line or in-house, is there any – are there opportunities on price to get a better premium, especially in those immediate consumption on-the-go channel?

<A - **Chris Hood**>: Yes. And in fact, we've recently announced some price increases across the line really, but on on-the-go packs as well. And just to expand a little bit on the supply chain piece, I think as we think about the set up for that supply chain, there are SKUs which have sufficient scale that we can actually invest in creating packing capability on the end of the line. That's a very efficient setup for us. And we think that that can deliver – in fact, the data says we can deliver very significant margin improvement on those scale SKUs.

Then, the next step down will be to say, well, if something is getting delivered off of a couple of different lines at the plant or doesn't have sufficient scale to come off of a single line, can we do it as near to the line as possible, perhaps in the manufacturing facility or right next door. And there's significant improvement that we can pick up there. And then, the third piece would be in repack facilities and consolidating our repack facilities in more efficient freight lanes and for bigger scale is the third opportunity that we're focused on. And across all of those things, there's a pretty big opportunity for us.

We've already done a lot of thinking around it. We've got a plan laid out and we're going after it aggressively.

<Q - **Bryan D. Spillane**>: Thank you.

<Q - **Jason English**>: Thank you very much. Jason English, Goldman Sachs. I want to build on Alexia's question because I thought it was a great question. And it's not just the last earnings season, it's actually the last two years, we've seen lots of examples where the profit pool is being redistributed a bit, either with costs being reallocated from a retailer to a manufacturer or in some instances, absolute price transfer.

You look at the cereal category, an outside observer would say, wow, that's a lot of space for a category that's been declining for a number of years. It would seem to be the poster child of the category that would be susceptible to this type of [ph] rasps. (02:45:04) And if you look at the margin degradation at Post, at General Mills, or your own business, U.S. cereal, it looks like it may actually be happening.

So can you give us some color? Is it indeed happening? If so, are we pretty much through it? And if the profit erosion is due to other factors, can you unpack it for us and also give us some comfort as to why that sort of margin transfer may

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not be on the [ph] comp (02:45:31) for that category?

<A - Steven A. Cahillane>: Yeah. Let me start and I'll let Chris, because you didn't ask this specifically, but there's been a lot of questions around cereal has a lot of space and it hasn't been growing. And therefore, it must be shrinking. It's not. There is no facts out there that suggest cereal is not shrinking. It's a big important category with high household penetration. When you look at it from a static standpoint, it's a very interesting category. It's high margin, builds baskets with high household penetration. And it gets people into the – away from the perimeter into the middle. That's from a static perspective.

However, when you look at growth over time, it's been declining. So your question is a very relevant one. How does that impact the way retailers think about it? The single most important thing in our view that we can do is get cereal stabilized and then back to modest growth because then everybody wins. And that's what the retailers want, by the way. Their number one objective is not to get more margin out of particular categories. It's to get more dollars out of particular categories. And the best way to do that in a sustainable way is to grow it.

And we have a lot of support from our retail partners based on our Deploy for Growth strategy. They've told us very directly, you guys are investing in the categories. We're seeing growth. And that's absolutely terrific. That's what we need. That's what they need because growth for them is as important as it is growth for us.

<A - Chris Hood>: Yeah. I mean, I would say we're not seeing a lot of margin transfer, if you will. I mean there are some choices that we have taken this year to invest in new packing formats and to invest in retail-ready packing, which is a big enabler for some of our retail partners to drive efficiency for their store operations, and we've invested in our brands this year incrementally versus the past.

So those are probably the two areas that they're preventing that from flowing to the bottom line. But I think if you look at our net sales per kilo in cereals, it's pretty stable.

<A - John Renwick>: We'll move to David. [indiscernible] (02:47:33)

<Q - David Christopher Driscoll>: Great. Thank you. David Driscoll, Citigroup. So, two questions. One on the operating profit outlook for 2019. You mentioned that it would grow, I believe, slower than the rate of sales growth. Then you made a comment, Steve, about the supply chain for single-serve that you wanted to see this kind of get fixed incumbent to being. So I just want to try to be clear on what's expected in that 2019 comment you made about OP growth. Does single-serve have to see a big ramp in terms of profitability in the second half of 2019 to make your big picture comment on the company prove true? Or have you just flat out been more conservative saying, hey, look, we'll tell you more about the potential of single-serve as the supply chain actually fixes itself?

<A - Steven A. Cahillane>: I [ph] don't (02:48:26) understand the question. We've got a plan, as Chris just mentioned, to improve the margins in our single-serve business based on basically insourcing and building capability in-house. Now, that can't happen January 1, that's going to take some time. And it's important that it's going to be part of our plan for margin improvement and therefore OP improvement over time. We are happy with the top line in the way that coming in. And I'd be very careful because as I said at the beginning, we don't have an approved budget and therefore we don't have guidance to talk about, but we're not going to go backwards, right. So, I did say top line is going to improve. We're going to improve that trend. And I also said that the OP is going to lag that improvement, but I didn't say it was going to go opposite. I said lag. And so therefore if one improves, one improves slightly less. But again, we'll give more helpful guidance once we get a budget approved and once we come to February per our normal course of doing these things.

<Q - David Christopher Driscoll>: And then, just a follow up on the divestiture program. So, the cookies and crackers business, can you just explain are any of the manufacturing assets kind of comingled? Do you make the cookies in the same places that you make the crackers? And if you do, how do you break all the stuff up to sell it? And then, related to this, I think you gave us a revenue component of the businesses that are up for sale, I think \$900 million or something. But can you give us an EBIT or EBITDA numbers so that we have some way to model the impact of these divestitures?

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<A - **Steven A. Cahillane**>: Yeah. So, starting with the manufacturing – the manufacturing is pretty discrete, right. There is a little bit some of these co-packing things that we're bringing in-house. Initially, we started to bring them into one cookie facility. We'll move that out. But by and large, these are very discrete manufacturing plants that do cookies and that do fruit snacks and they do cones and crusts. And so, it's actually a nice carve out, if you will. Everybody is familiar with carve outs. There is a big continuum. Some are very difficult, because they're so integrated. Some are pretty stand-alone. This is more in the – more easy to do, particularly when it comes to manufacturing. And then, I don't know, if we – did we get into the EBITDA in terms of...?

<A - **John Renwick**>: No, we haven't given – sorry. We haven't given any sort of profit numbers yet because a little bit will depend on buyers' interest in what comes with it, what does not come with it. So, you're going to have to wait a little bit on the profit side.

<Q - **David Cristopher Driscoll**>: Okay. Thank you.

<Q>: On the frozen side, I think, it might have been your predecessor, Steve, it might have been you, I forget who, but somebody in the last couple of years, I think, suggested that frozen was a little bit under scale in how you viewed it. And correct me if I'm wrong on that. So, I'm just curious for an update on that. You guys, obviously, have two very good businesses, especially Eggo right now, but frozen is not what I would consider and I don't think you would consider Kellogg's core competence. So, do you need to be bigger in frozen with other brands? Is it possible to think about going small there? I'm just trying to get a sense for your vision for the frozen assets, over time, especially because it's really just a domestic business to your point earlier.

<A - **Steven A. Cahillane**>: Yeah. Thanks. I got a question, I can't remember exactly when, but it was six months or longer ago about scaling the frozen business. And what I said was I actually like our scale in the frozen business, and I like our core competencies. If you think about the Eggo business, for example, it's by and large breakfast, but it's also on-the-go. And we're marketers, right, and we market to breakfast and snacks. And so, Eggo is absolutely integral to the way we think about our North America business and we think we've got the best competency in terms of managing that business going forward.

MorningStar Farms is a very interesting one, because as we think about occasions, it's arguably the only really center-of-plate occasion that we have, right. You can say Eggo is center of plate if it's breakfast, but it's really kind of a as a meal. It stands alone in our portfolio as that center-of-plate occasion. But it's very niche and it's very health and wellness related. And we started as a health-and-wellness company. Health and wellness is a very important part of the way we think about occasion. So, we like MorningStar Farms as well. And I think we've proven that we can grow that business very nicely. And so, we think about both of those businesses being very important parts of the portfolio.

We think our capabilities are absolutely right, lock solid, they're where they need to be in terms of growing those businesses going forward. And we like to hit the recent history, especially of what we've done. So, could there be additions over time? Yes, there could be, but I don't think there needs to be.

<Q>: And a very quick clarification on just something else that you guys have talked about. You've talked about your long-term goal for developed market cereal being stable. Correct me if I'm wrong on that. Stable can be a lot different things. If we come back in and then over the next 10 years, the CAGR of that business is minus 1%, are you happy with that? Are you unhappy if it's anything with a minus number in front it? I really just want to understand what that word means, because it is so broad. Thank you.

<A - **Steven A. Cahillane**>: It's a great question. So think flat over time, because what we've said is if you do the math on our algorithm, particularly as developing markets continues to grow and become a bigger portion of our portfolio, as frozen grows, all these other things, you can think about a flat developed cereal market and we make our algorithm, right. You can even think about a minus 1% or minus 2%, it makes it increasingly harder, which is why we've always said developed market cereal doesn't need to grow for us to make our algorithm.

Do we want it to grow? Absolutely. And so, we would be happy if we could grow developed market cereal by 1% to 2%, then you could say we'd be happy with that. We would be unhappy if it declines minus 1% or minus 2%, but we can live with it, I think, is probably the best way to think about the way the math works.



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**<Q - Robert Moskow>**: Hi. Rob Moskow, Credit Suisse. Steve, I think I've asked this question before. I'm always surprised by how the company talks about the developed market as a whole for breakfast cereal. But then when you look at the execution by market, it is very specific by market. I don't see a lot of examples of global advertising. I see a game plan that you executed in Australia and the intention is to take this game plan. But it's a very broad game plan. So I was wondering, in your experience with a lot of other global companies, what does Kellogg have in terms of sharing global and local, and how does it think about that marriage?

**<A - Steven A. Cahillane>**: Yeah. So, I think historically we haven't been as good as we need to be at sharing best practices and thinking about what Doug outlined is the playbook as really driving those best practices that we know are working into all the markets so that we have a common way of going to market. And that's what the playbook is meant to do and it's meant to be a continuous improvement journey as well. So as we see something working in Australia, can we transfer that to the United States? When we see something working in the UK, can we transfer that to market?

So, I think what you're seeing actually is some good work over the course of the last 18 months of that happening with Special K is one example, with Corn Flakes and the way we drove Corn Flakes in the UK is really driving reassessment and, what we call internally, the versatility of cereal. So, I would say, we're on the journey. We're not as good as we need to be, but we're making improvements. And I think you're seeing that as a stabilization.

The second part of the question is, some brands are truly fundamentally global in nature. Kellogg's is global in nature, but many of the sub-brands or the brands underneath Kellogg are not. And so, the biggest brand in the United Kingdom or in Australia, for example, as Doug said, is Nutri-Grain, right. Now, we can take some learnings from Nutri-Grain and the way that's marketed around vitality and energy and so forth and apply that. But Nutri-Grain is a brand, it stops really inside Australia in terms of cereal.

**<Q - Robert Moskow>**: Okay. And one quick follow-up. What's the rate of decline on the \$900 million businesses that you're divesting? Is it low single-digit decline?

**<A - Steven A. Cahillane>**: You know what that is?

**<A - John Renwick>**: Yeah, that's low-single digit.

**<Q - Robert Moskow>**: Low-single digit. All right. Thanks.

**<Q - Eric J. Larson>**: Yeah. Eric Larson, Buckingham. Just a question on Special K. The brand, obviously, created a lot of headwinds for you four or five years ago, across multiple categories. And I saw on lot of the charts today it's stabilized or stabilizing, dependent upon market. But my question is, is Special K still a modest headwind for you on a global revenue basis? And will you have to put a lot more money toward that brand to kind of to really truly stabilize it?

**<A - Doug VanDeVelde>**: So, two parts of that. On the cereal side of Special K, we think that really is going to be a growth brand for us going forward. Got the repositioning now kind of behind us. We've got the new advertising campaign around how Special K has nutrition to power your real life. That's working for us. We're renovating the food. We're changing the packaging. And when we put all that together, in cereal, we see growth. Now, on the wholesome snacks side, we had a very big portfolio of kind of 100-calorie bars, if you remember those, those were a huge success back in the low-cal days. We are still working our way out of those bars. Those are now primarily off-trend food, and we're working our way out of those. Now, we're replacing that with protein-containing bars. Okay. And where we have Special K protein bars, they're growing, but that is not yet enough to offset the decline of the 100-calorie bars. So when you look at wholesome snacks, you still see Special K declining, until we worked through that food transformation.

**<Q>**: Chris, one for you. The DSD to warehouse transition has gone very well, as you've talked about, the slides on velocity and displays and things of that nature. Obviously, your largest competitor in that space for now has decided to stick with the Direct Store Delivery piece, but they've gone through some pretty significant supply chain issues on their own over the past year. So, I guess my question is, should we think about this as, though, there was sort of an unexpected reprieve in the marketplace that helped Kellogg through this transition? Or did we not really see evidence of that such that we don't need to worry as much about whatever – DSD is in advantage for them when they get their

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own supply chain fixed that we just haven't seen the impact of yet? Thank you.

**<A - Chris Hood>**: Yeah. I mean I'm not going to comment on what their thinking might be. I think what we see in warehouse distribution is a business where we believe we can create real advantage and scale behind investments in power brands and power SKUs. I've not seen any evidence that there has been any reprieve or let up really in their pressure. It's a competitive marketplace from our standpoint, we feel that if we invest in our brands and we innovate on those brands that we can win in warehouse. And by the way, we have a lot of experience in warehouse as a company as well. And Pringles is a business that in snacks has competed very effectively in warehouse for 50 years plus. So, we know how to do it. We think that we can build significant scale behind it. We think it's an advantage actually, because of the velocity and the efficiency that comes with a warehouse system and it's just a different go-to-market model that we're choosing.

**<A - Steven A. Cahillane>**: And let me add to that too, [ph] Andrew (3:00:43), because I think the DSD was a win-win for the retailer as well. Right. So, everybody understands what we did, so I won't go through it again. But the margins improved and the velocities improved, and that's very good for the retailer, to state kind of an obvious thing. And category growth is what the retailer is interested in. To the extent we can drive category growth, then they win. In my experience, going and talking to a retailer about how I want to win versus the other guy and take share is a far less interesting conversation to have with a retailer. They're interested in the category. And so, they see what's happening as being good and that's the right way to have that conversation, I think.

**<Q>**: Hi. I had two questions, if I could. You have not defined the cost savings from North American consolidation. Are there more savings in fiscal 2019 than in fiscal 2018 because of this action coming through, whether you can define that or not? I'm just curious as you think about the savings benefiting the P&L next year.

**<A - John Renwick>**: I mean, the savings forecast improved, [indiscernible] (3:01:52) later, but the savings forecasts have not really changed. We'd already contemplated this. As we've said before, of the \$600 million to \$700 million of savings from Project K, most of the remaining savings, and it's really as details as we've gotten, were in 2018, but there are some in 2019 and a lot of that is this.

**<Q>**: This, okay. So, it sounds like it'll be lower then. Now, the other question I have was in relation to the U.S. business, could you give us an idea of what you – well, how you see the category growth rates right now? And embedded in your expectations is to grow in line with the categories or to gain market share? I'm curious if you could put a little color on that.

**<A - Chris Hood>**: I mean, I'll cycle through the categories in a second, but I guess, first, the statement of ambition. I mean it's our ambition in all of our categories to grow share, right. So, that's how we define winning. I think as you cycle through the categories, the cereal business is still down, it's down about 1.5 point on consumption. Some on measured channels, some of that consumption is coming in outside of measured channels. So, we think it's less than that, probably less than 1 point of decline on \$1 sales from an overall consumption standpoint. So, it's relatively stable. We want to grow share in that context. And so, that's how we get to an ambition of flat to low growth on our cereal business.

Snacks, there's a bunch of different segments there. I think salty snacks is a category that's very healthy, usually grows in the U.S. sort of a 2% to 3% – basis, some of it behind RGM, some of it behind increased consumption. We expect to exceed that rate of growth and build share in salty snacks. Crackers, we've got a bunch of different assets there. I think, on Cheez-It, certainly, we expect to grow share on our Cheez-It brand, which is a great brand. And as we expand formats from a packaging standpoint, there's a lot of growth opportunity there. Town House and Club, we expect to be sort of probably stable is the way to think about it. Crackers category, I think, if I recall, I think, is about flat from [ph] – up 1% (3:03:59) maybe from a consumption standpoint. So, that would imply that those businesses are – in total, the crackers portfolio is probably in the low-single-digit growth.

I think, on frozen, mid-single digit, as we said in the presentation, is where we think we could be. MorningStar Farms got a lot of tailwinds from a health and wellness standpoint. We think the brand's got broader shoulders than we're executing against today. So, we think mid-single digit is a good place for that business to be. And Eggo is a brand that

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– the category, first of all, is growing mid-single digit, that sub-segment of the category and we're the leading player. So, we would expect to certainly hold share where we're already the biggest player, on Eggo. I think that covers all. Wholesome snacks, I mean, we're growing share in portable wholesome snacks really on the back of RX and we expect to continue to do that. Yeah. What's that?

<A - John Renwick>: And Rice Krispies Treats.

<A - Chris Hood>: And Rice Krispies Treats, yeah.

<A - John Renwick>: [ph] Anyone else (3:05:04)? All right. Let's go to next segment and...

## Monica H. McGurk

All right. Good morning, everyone. I'm delighted to be with you today and I thought I'd start out with just a little bit of introduction to myself and my comments, so you have context for what I'm about to share with you today about e-commerce. I'm five months in to my time on the Kellogg team. I come from a deep background in demand generation and FMCG, which includes stints as the Chief Growth Officer at Tyson Foods, which encompass everything from insights, innovation, R&D, venturing, marketing and e-commerce; as well as time in Coca-Cola's North America business, where I led strategy and brand planning, e-commerce, insights and advanced analytics.

My role here at Kellogg is as Global Revenue and e-commerce Officer, which essentially means I partner with our business leadership around the world to bring many aspects of our Deploy for Growth strategy to life in outlet and customer execution. This includes really actioning our occasion-based growth strategy in ways that define value creation opportunities jointly with our customers, all the way to thinking through building sales force capabilities and advanced analytics to drive perfect outlet execution day-in and day-out. It includes activating all the levers of revenue growth management so that we are earning price with and for our customers, and making sure that we're positioned for profitable growth and emerging channels.

And it's that last bit today, particularly around e-commerce, that I'm going to spend my time with you this morning. And I thought it would be great to start out with a bit of a discussion around why we're so excited about the e-commerce business, when we look at our categories specifically. Simply put, even though the business might be small today, when we look at the potential, we're really excited about what we can do here. And there's no better metric than to look at a snapshot of our categories penetration around the world.

What you see on this page is just a current state of penetration, different markets, different categories, in which we compete, and how much of the category has shifted into that online environment. What you see is a pretty wide range, which makes us really excited. We recognize looking at this page that not every market is going to be a China. But there is every reason to believe that the penetration will continue to march up that curve and to the right. When you think about how retail partners are leaning into this space with technology investments, new business models and partnerships themselves. [ph] Albeit (3:08:19) the simple fact that by 2020, estimates predict that even in the United States, 60% of households will be covered by same-day delivery, sometimes even single-hour delivery, we have every reason to believe that this is going to be a great growth environment for us. And when I dig into our position in this space, we're really excited about the potential for our business. Specifically, we've got a global portfolio, great brands, channels and geographies, which you've been exposed to this morning.

What that means for the e-commerce business is that we've got fantastic test beds working with our customers to learn, innovate and quickly spread winning models around the world. We've got favorable weight-to-value ratios in all the categories in which we compete, which means we're ideal for basket building and fulfillment, even in expensive fulfillment models such as ship to home.

Our occasion-based strategy is ideal not just for a physical outlet execution, but really fantastic in an e-commerce environment, where there are no physical grocery store footprint barriers to bringing together bundled executions around all of our occasions. And we're finding, as we partner with our retail and specialty customers, this is a new space for many of them unlocking a lot of growth in our categories. We've already made a great investment in our

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database capabilities and advanced analytics, leveraging things like our loyalty and rewards platform, Kellogg's Family Rewards to advance our first-party data and give us a leading-edge insight into how to execute in the digital environment.

And we've got a large rapidly-growing business already in place. When we look at it from, perhaps, the traditional measurement of e-commerce in the retail space, we're at or slightly ahead of the grocery industry overall at 2% to 3% of our business. When we layer in a very big part of our e-commerce business, which we often don't talk about, our specialty business, our business-to-business business, we're actually north of that, north of 5%. So, we're excited about that. All the reasons we have to win in this space, and probably the most important reason we're confident about our ability to win is our leadership commitment to that.

When we start looking around the world then, we're really excited by the performance we're already driving to-date. The key metric that we look at as to whether we are winning in the e-commerce space is whether we're generating advantage from a share position when we look at our online-to-offline ratios. The reason why we focus on this metric is because the higher the advantages we generate, the more likely is that our e-commerce business is not simply capturing channels shifting, but is actually driving real growth in our business. So, what you see behind me is a snapshot of the range of share advantage measured on a basis point advantage that we're opening up around the world. And we are excited to see a lot of green, right.

Now, underneath this, there's a lot of change going on. Not every market and category is green. We've got some red there. When you go unpack it, you might see brands that aren't generating the same sort of share advantage. And we recognize this is a rapidly changing environment and so the bar is continuously raising. We've got a lot of work to do to maintain and expand these advantages. But net-net, we look at this and we're excited about the opportunity and the way we're performing even in today's environment. And it creates an even bolder ambition for us as we think about what we aspire to deliver in e-commerce around the world.

So as we think about our strategy and our ambition, it's important to note that we don't think about e-commerce as just a channel. We think about it as a great generator of insights, a test-and-learn environment that can fuel the entirety of our business. We think about it as a generator of first-party data that can be advantageous as we think about digital activations around the world. We think about it, most importantly, as a way to build one-to-one relationships with shoppers and consumers, bringing to market unique experiences that build brand loyalty, brand equity and boost the business in its entirety. So, as we think about our aspirations for the business, our ambition is to deliver seamless and compelling experiences that earn us digital-first position with our customers, our shoppers, and in the hearts and minds of our consumers.

When we think about how we'll measure whether we're delivering on that ambition, it starts, of course, with category-leading growth in the online environment. It includes brand health and whether our presence in those e-commerce environments are actually driving favorable equities. Of course, online share leadership exceeding that we have offline is an important metric as I've already discussed. And bottom line, we are configuring our strategy to deliver accretive portfolio economics, using things like a bespoke price-pack architecture to be mindful of cross-channel conflicts and the shopper missions that this channel can deliver for us, using the digital environment to drive cost-to-serve advantages, and using the data-driven insights we can leverage in e-commerce to target and drive better ROIs out of our media and marketing investments. Through all those things, we believe this portfolio can be accretive over time.

Now, how will we do that? It starts with winning through some key platforms, the first of which, of course, is in the retail segment. Very simply, when so many of our retail partners are investing themselves in winning in the omni-channel space, it's imperative, as their strategic partner, that we're right there with them, partnering to realize mutually beneficial and profitable growth. That said, we have a very large and exciting business-to-business segment, in which we operate. Think of wholesale and distribution customers. In the United States and other developed markets, some of those customers are driving even higher rates of conversion into an e-commerce environment. And Forrester, McKinsey, a number of analysts predict that the size of these markets around the world can be as much as 2 times to 10 times bigger than even the retail grocery opportunity. So, of course, we're going to focus and deliver on those



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opportunities in partnership with those customers as well.

We'll do so through a number of critical platforms. And I won't go through them all in detail this morning, but I'll focus on one, owning the path to purchase to bring it to life for you. If you think about the digital environment, there's a powerful opportunity for us in partnership with our customers to make sure we remain relevant and own that path to purchase with shoppers regardless of what disruption is happening. So, that could be commercializing and ensuring that we've got the full leverage of our media and content platforms, including our own websites, to drive traffic and a commercial opportunity to our customers. It means investments in making sure we've locked in that shopping list, which becomes a powerful flywheel for loyalty and continuity in these executions. And it means identifying the right disruptors, Internet of Things, voice-enabled shopping, other disruptors in the environment that will continue to evolve, to make sure that we are always present regardless of how the digital space evolves. So, those will be the two big focuses of our e-commerce investments.

That said, direct-to-consumer does have a powerful role to play. It might be a more targeted role because we don't aspire to compete with our customers. We're looking at ways that we can use this set of channels to complement their own businesses, but there is a role for it. It includes being innovative and commercializing new brands and new businesses, which Peter, as he explained the RX model, gave you great illustration of this morning. It could mean activating other business models in this space, figuring out ways to bring to market assets that we might otherwise not be able to monetize in a fixed shelf environment. And of course, it means leveraging direct-to-consumer platforms to continue to feed our data engine, creating broader and broader sets of data to enable us to do targeted marketing and brand building, regardless of the environment. So when we look around the world, we see great evidence that we're executing these strategies every day in every market.

If I start in the upper left-hand corner, you can see an example of a back-to-school e-commerce activation with one of the leading specialty providers in the United States, a great distribution play that drove double-digit lift. You've already heard about the great RX platform as a brand building and direct-to-consumer play. You see beyond that, the Breakfast Fest activation that we had with a leading retailer in India, which drove quintuple household penetration across our cereal portfolio. From a test-and-learn environment perspective, we've got the Call of Duty activation with Walmart in the United States, which is a powerful activation of excellent merchandise, Call of Duty merchandise, when you purchase the case, that additionally drove shoppers to the Kellogg's Family Rewards site creating a flywheel of data generation and loyalty platform growth.

We've also been able to activate our Bear Naked direct-to-consumer platform, originally simply a direct-to-consumer platform, but now a powerful activation as the first personalization and customization play in grocery by Walmart that we just launched last week.

Going over to the brand-building side, you can see examples such as Korea, a partnership with Kakao that launched a new innovative brand, including unique online packaging that included a gift package to bring a real branded experience into the home. And of course, our partnership with retailers and aggregated food delivery providers in the UK around the soccer activation this summer to bring a new form of impulse shopping to market, promising 30-minute delivery or under on the snacking occasion around soccer.

So, these examples just give you a flavor for how this strategy that centers around data-driven channel execution, test-and-learn environments and brand building is really coming to life around the world. To deliver this consistently and to build this type of a business profitably over time requires us to invest in a total operational excellence system.

That might seem obvious, right, because every business requires operational excellence. But often we talk about e-commerce from a very narrow lens, maybe focusing on the optimized pack-price architecture or talking about the importance of digital shelf, which is important because it locks in that shopper over time. What we're interested in doing is building an end-to-end integrated model, recognizing the interplay between these capabilities. So, let me talk about agile supply chain as an example.

We need the supply chain agility to respond to the different fulfillment models that many of our customers are driving in their e-commerce space. But the interrelationship between it and digital shelf is paramount. If we don't have

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availability, it actually hits the algorithms that drive where we turn up and search results, which have a direct impact on our execution of digital shelf. So, making sure we're optimizing the agile supply chain to provide availability, using machine learning and advanced analytics to actually predict when we might be in an out-of-stock position, intervening through automation to create the purchase order to prevent that from happening, or shift our promotional spending so that we're not spending needlessly, is a very powerful illustration of how this flywheel comes to life to drive operational excellence.

Over time, this type of interconnected operational excellence will ensure we're building this part of our business in a way that is very profitable for both us and our customers. In the near term, we're investing in it. You've already heard some of the examples as Chris talked about our changes in North America, to make sure we've got the right capabilities in place as we grow the business.

So, what you can predict or expect in 2019 is that we'll continue to invest behind this capability. We're going to continue to partner with our retail customers for disciplined execution and innovation. We're going to continue to invest in building out our digital shelf assets, making sure that we're syndicating and maintaining our presence in this environment. We're going to continue to focus on bringing to life our occasion-based strategy in the online environment, accelerate our business-to-business deployment, which is a very exciting growth opportunity for us, and continue to deliver test-and-learn experimentation around the world against different brands and markets.

So in summary, we're excited about the prospects for this business, we see lots of opportunity to innovate, learn and rapidly expand around the world. And we'd encourage you to watch this space in the future, because there will be definitely more to talk about.

So with that, I'll turn it over to Fareed.

## Fareed A. Khan

Thank you. Good morning, everybody. Thanks so much for joining us today. Really appreciate your time and your interest in Kellogg. We're in the homestretch here. I'm going to talk a little bit about some of the financial underpinnings of our plan and get into a little bit of the outlook as well. But I hope what you saw this morning was our commitment to our Deploy for Growth strategy. We unveiled it at CAGNY, and you can see the importance of winning at occasions, of shaping a growth portfolio, of building great brands and perfect service, perfect store, cut right through all the strategies around the globe, and we're very committed to that.

So, what I'd like to do in the next little while is give you a little bit more of an underpinning. I want to focus on the strategy, but I know our recent quarter and our recent guidance for 2018 is on your minds as well. So, I'm going to start with a little bit of an overview of our 2018 guidance and just fill in some of the gaps for you.

So as you recall, we made the following statements about 2018. First, we guided sales at the high end of our range, and that reflects the momentum that you saw building in the business. Secondly, operating profit was lowered to about flattish, and I want to get into those drivers shown on this slide. EPS growth was lower to 7% to 8%; and in dollar terms, that's about \$100 million, right, so not a small amount. But if you look at this page, that's really the key drivers of our earnings call down. I apologize, I thought – I'm looking at the wrong side of the page here.

The first driver I'd like to note is the growth of single-serve and on-the-go pack formats and related channels. This is broad-based growth, but the pressures that we're seeing are mostly on our snacks portfolio. We're currently under-indexed, as you know, in these areas relative to the opportunity. We have great brands that are highly relevant for these occasions, and they can extend into them. And this is increasingly where consumers are headed on a global basis.

In developed markets, immediate consumption offerings and multi-packs; and in emerging markets, single-serve sachets with more affordable price points, and both opportunities are important for future growth. But in the U.S., following our exit of DSD, this growth has been much stronger than we'd anticipated going in. We like the growth as it reflects the underlying consumer trends that are going to drive sustained growth in the future. Currently, single-serve is about 10% of our snacks portfolio, but as you heard, it's growing rapidly. And while it's growing, it's not delivered the

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contribution margin that we are expecting and I'll touch on some of the key drivers right now.

The root causes of these are addressable and you'll see us get underneath them over time. So, let me touch on these. First, as you heard from Chris, we're shipping more miles than optimal. Product is moving to repack or co-packing centers and back to warehouses for customer shipments. We're also responding to customer demand and highly successful promotions, which cause additional movement of our product through our network. Very high freight inflationary pressures coupled with our movements, you could imagine the drag that we're starting to see on margin.

The second factor is we haven't yet optimized our co-packing network, and we've been relying more heavily than optimal on third-party co-packers to a greater extent to meet the demand that we have. And this also adds cost and complexity and inefficiency.

Third and relatedly the time involved to move a product to packing centers, from there to repack them, to get to our customers, all of that is longer than optimal. And this gives us a narrow window to work with and we've seen challenges with product dating, which leads to higher rates of remarketing activity and inventory write-offs.

And the last factor is just pressure in our single-serve packaging capacity. And this means we're not producing optimal product at the right locations. So, these are all small issues, but in aggregate, you could imagine, on a fairly large \$300 million business, as an example, that's growing rapidly, really taking pretty big chunks out of our contribution margin, and that's what's going on.

Now, the drivers of those we understand and we have actions in place to address those. Some of those are capacity, some of those are network optimization in terms of finding more optimal locations for co-packing facilities, and all of these are in the works. They're not going to be quick fixes, meaning in the next weeks or months, but we will get underneath them over time. And as we work through 2019, we should see improvements in profitability.

I just want to reiterate, strategically, we really value these occasions, right? We're under-indexed on those. That's where consumers are headed. And it really does create new opportunities for growth, and we made the choice to go after on-the-go formats and on-the-go occasions aggressively and then say – committed to that with sustained focus as we go forward.

The second driver I'd point to and it's shown on yellow on this slide contributes about a third or about \$30 million to \$35 million of our call down. And this was our decision to improve – to continue investments in the second half of the year above the levels that we'd originally contemplated. As you recall, in Q3, our incremental investments actually exceeded our operating profit declines. And we could have easily pulled back on those investments, but our commitment is to sustain top-line growth. And we see these investments working, we see them impact on our brands, and we see the importance of the capabilities that we're building for the long term. And we made the choice to continue to focus on those. And in Q4, we will also stay the course on some of these investments.

Recall that in last year's Q4, we had the first lifts in investment as part of Deploy for Growth. We'll be lapping some of those. But in terms of what we were expecting for the back half of this year, our investment levels are higher than we originally contemplated, because we have good commercial ideas, we like what we're seeing and we want to stay the course here.

And the last driver is the smallest and it's shown in gray on the slide, and that really relates to a combination of accelerating inflationary pressures and some trade inventory risk at our retailers that we wanted to call out. On the inflationary side, where we're seeing it most is around freight and in some ingredients and packaging. We've been offsetting these pressures year-to-date through productivity initiatives.

We've got a lot of underlying productivity focus areas. We're also benefiting from Project K that's flowing through as well. We were anticipating as we lap last year's accelerating inflationary pressures, particularly around freight and logistics, to ease. And we haven't seen those ease. We've seen them continue to drive inflation and we're expecting our productivity initiatives to offset those to a greater extent than we've been seeing, and that's the last part.

And then the final area is just around potential trade inventory coming out of the channel. When we got out of DSD, we were expecting our customers to optimize their supply chains as they got a better sense of flow through their networks.

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We hadn't seen that to the extent that we have. We feel we may see some of that as we get through the fourth quarter and we'll see how that goes.

So, that's the main point I wanted to make. But if you step back from all of that and look at 2018 holistically, it shows a solid year and a good start to our Deploy for Growth strategy. Net sales growth over 5% shows the impact of our progress in reshaping our portfolio for growth. You heard from Peter about our RXBAR. It's expanding distribution and performing strongly in market. And there's a lot of exciting platforms that we continue to expand that growth on.

Multipro, our West Africa distributor, is now consolidated into our business. It's large. You saw the scale of that market in our emerging markets portfolio. And that business continues to post sustained double-digit growth rates and it's got a long track record of doing that in a very dynamic part of the world. You heard about our emerging markets performing well and posting celebrated growth over the prior year and we've seen that broad based. And in many of the key markets we're investing in, that's double-digit growth, and improved organic growth as well benefiting from some of the investments that we made in.

So, we've made significant investments to jumpstart Deploy for Growth. These investments, as I mentioned, would be the equivalent of a low- to mid-single digit OP margin growth. Right. So, pretty significant investments that went in 2018. And as I mentioned, we've been managing the inflationary cost pressures that we've been facing through productivity and then offsetting those. Adjusted EPS growth of 7% to 8% is solid and we expect to post another year of durable cash flow at about \$1 billion.

So we're on our way, and slide 18 – sorry, 2018 gives us confidence that we're on our way to the P&L targets that we outlined at CAGNY for our long-term algorithm. The key to this is achieving sustainable dependable top-line growth, augmented with M&A. And that's why you see the focus that we have on top line right now. And with continued momentum around our productivity initiatives and as we achieve scale in emerging markets, we'll deliver the mid-single-digit operating profit growth shown and mid- to high-single digit EPS growth. And durable cash flow will allow us to maintain an attractive dividend yield of 2% to 3%. So taken together, this algorithm should provide attractive total shareholder return to shareholders.

We're more confident today than we were at CAGNY about Deploy for Growth and our ability to achieve this algorithm. And we say that because we're seeing that top-line momentum come back into the business. This has not been the case in recent years. And we're really leaning into changing that trajectory. It's not just about getting growth. It's about reversing several years of mid-single digit types of declines.

So as our emerging markets portfolio build scale, it's roughly 20% of our mix now, that's going to continue to grow and that's going to drive growth. In developed markets, our frozen business has significant runway, as you heard from Chris, and we have great brands like Eggo and MorningStar Farms. And with the changes to the North American business model, we'll have even more focus on some of those smaller categories that offer terrific potential. And with the optimized network, following our DSD exit and as we address single-serve pressures, we will see sustained growth in developed markets snacks and stabilization of our cereal business. And you saw, again, good trends in that direction from Doug.

So, it's not difficult to see how this portfolio could generate sustained organic growth of over 1%. And there's real tangible evidence in 2018 that we're doing just that. And with focused M&A, along the lines that we've been doing, we could easily see 1% to 3% top-line growth. That's the algorithm we outlined at CAGNY and I think we're on a good pace to achieve that.

So Steve mentioned, we're moving towards sustainable growth in 2018 and 2019, and these are going to be very important years in our transition. We've proven that we can be aggressive in our cost structure. The Project K is nearing completion, but we had a good set of initiatives that are driving benefits from that, and our work is never done.

Our DSD exit is now successfully behind us and it set the stage for even more efficient and effective operating model for our U.S. business that's led to the reorganization and more agile organization that Chris talked about. But our ZBB discipline that we set in place several years ago continues and that allows us to keep the focus on discretionary costs as well as the productivity initiatives that are part of our operating our network.



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You've seen us build on this cost discipline by investing at Deploy for Growth, investments in our brands, investments in new innovation in pack formats. And these are going to unlock additional occasions and consumer demand, and we're boldly shaping our portfolio towards growth, investing in brands like RX, in markets like Brazil, West Africa, Russia and India, all of which are going to be accretive to organic growth.

And with yesterday's announcements of over – of almost \$900 million in sales that we're divesting, you can see we're very serious about taking the steps that we need to proactively reshape our portfolio and really focus on the parts of the business that offer long-term growth and monetize other areas that we can then deploy back into growth areas.

Our investments behind our strategy are going to continue. We've discussed 2018 in some detail, but we also plan on a sustained program into 2019. We've not finished finalizing the details of our budget, the details of where we're going to invest next year. But what I can tell you is that we see a lot of compelling commercial ideas and a lot of great areas to growth – to invest in terms of growth capabilities. And this includes investments in our brands, in driving new occasions, like on-the-go that we've talked about, RTEC shelf simplification as well as efforts to strengthen the category, and [ph] we'll have the aisles (3:36:58) work harder for us and for our customers. And you heard from Monica about the importance of e-commerce and our continued commitment to invest behind this important capability.

So, we're not in a position today to give you definitive guidance for 2019, but we can give you a sense. And obviously, a very significant factor will be the outcome and the timing of the just announced divestiture, which could be roughly \$900 million in sales, as we mentioned. But this divestiture will come with a significant reduction in complexity and a stronger financial position, but it'll also represent a significant undertaking as we work through the transaction.

So, on the top line, we should expect continued improvement, building on the momentum we have. That's going to be supported by continued investment in a targeted way in areas that are going to drive growth and with focused and disciplined execution. It's a little early for us to commit to a bottom-line number, but with the investments as we sort out the single-serve and on-the-go pressures in U.S. snacks, we could see operating profit in a similar range to 2018. And we will give you more detail early next year as we get a better line of sight on the timing of the sale of the business as well as, as we finalize our investment plans and get a better read on next year.

What you can expect for us, in terms of capital deployment, is very consistent with what we've been doing. Durable cash flow and the cash proceeds from our divestiture will strengthen our balance sheet and give us plenty of dry powder for future investments. We're committed to maintaining investment grade and implementing our Deploy for Growth strategy well within these guardrails. We expect CapEx to be up modestly over 2018, reflecting investments in growth and capacity. And as always, we're committed to an attractive dividend, and we typically target a 50% pay out. And lastly, we'll flex our share repurchases for potential acquisitions. So, that's an overview of some of the financial considerations [ph] we're laying (3:39:03) for Deploy for Growth.

Let me close with a couple of quick items related to our disclosures. This page – here we go. This page summarize what we expect to be changes to our external disclosures. It's more of a housekeeping item, so I'll move through it pretty quickly. On the total company basis, we don't expect any changes. Of note, the 2019 North American reorganization is captured in our Project K guidance and will be the last significant project in that program. Because of the new operating model being implemented in North America, our business unit, net sales and operating profit disclosures will be streamlined and we'll be working through these changes in the context of the reorganization and of divestiture.

After the close of the divestiture, the impacted business will be disclosed as divestitures and, prospectively, excluded from organic basis net sales. Europe and EMEA, as you heard, will reflect the shift of our Middle East and North African business and we'll provide 2018 figures as a basis for comparison to 2019.

A few more things on this page related to M&A activity. As a reminder, the RX acquisition will anniversary in Q4, 2018, Multipro will anniversary in Q2, 2019. And we've not included the possible divestiture into our guidance, but for relative sizing, as we've talked about the business we contemplated for sale, we'll have about 2018 net sales of roughly \$900 million and we plan on using the proceeds for debt reduction, future acquisitions and/or share repurchases.

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All right. So, thanks for your time this morning. Let me leave you with the few key takeaways. First, we're making important investments that are building the foundation for sustainable profitable growth. Second, we'll continue to manage the rising cost inflation with productivity and RGM initiatives. Third, we're aggressively addressing margin improvement opportunities related to on-the-go. And fourth, our organization changes in North America and EMEA set us up for success and create a more efficient and effective operating model for the business. And lastly, you can count on us for durable cash flow delivery and disciplined capital deployment with a strong commitment to investment-grade and to an attractive balance sheet.

So again, thanks for your time. Let me turn it back over to Steve for some closing comments.

### **Steven A. Cahillane**

All right. Thank you, Fareed, and thanks everybody for hanging in there with us. Really appreciate your time, know it's a big commitment. So, just some final thoughts from me. The kind of company that we want to be, I think we've outlined it, I hope we've outlined it: balanced, sustainable, financial delivery. You've heard us say over and over that our algorithm works when our top-line grows. Very difficult to get there without top-line growth; hence, our commitment to continue to push forward.

We also believe that we're a company with heart and soul. And to me, it's an incredible privilege to be the leader at that Kellogg Company with my colleagues here. It is truly a company with a heart and soul, started by the visionary founder W.K. Kellogg. And for us, good business is also doing well in society. So, you can see we're very much into promoting physical wellbeing. We believe we sell very healthy foods. We're exploring new opportunities in the microbiome. We've restarted as a plant-based organization and we really try and see where we can add value in our communities.

We have a commitment to social wellbeing. More and more, this is very important for consumers. It's important to attract talent and we have a very large commitment in the space. And we've got a corporate social responsibility program that we're very committed to. We have not backed off on this. In fact, we continue to spend our time, our people's time, our energy and our investments in this regard. So, I thought it was important just to note at the end, none of this has changed.

When I came into the organization 13 months ago, I talked to people all over the business and asked them a number of things, what they would change? What they would do if they were me? How they saw the company being successful going forward? And it was the basis really of our Deploy for Growth strategy. But you may have heard me say before, there is not a word that we changed as a leadership team around our purpose, around our vision and around the things that our founder really felt were very, very important.

So, we really do want to be a sustainable long-term successful business, but one that never loses its anchor and truly being a company with a heart and soul. It's important to us and it's important to our people.

So in summary, we are deploying for growth. It was never going to be a straight line, but we believe that getting the top line, as I said, was the most important thing. And we remain very constructively discontented around financial delivery, but the beginning is really investing for growth and getting that top line exactly where we need it to be. We're returning to growth. You've seen that throughout all the presentations. But driving for profitable growth is ultimately the objective that we have. And so, as we've said many times, we have not gone through our budget. I think we've given you a pretty good idea of the way that it's shaping up and what you can expect in 2019.

We'll be more precise when we come forward with Q4 in February. We're continuing to push very, very hard against top-line growth, but pushing even harder now to make sure that we're making the changes necessary to really get our margins improve to where they need to be and as quickly as possible get to that algorithm that we outlined at CAGNY, because we do believe that that is fundamentally a winning strategy for us and it's the journey that we're on.

So again, thank you very much for your time, your attention coming out in inclement weather to be with us here at the Cereal Café. And with that, we've got one last Q&A session. Right, John?

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## Q&A

<Q>: Hi. Is it on? Hi. Good morning and thank you for hosting everyone today. I can appreciate that for 2019, you can't speak because business planning isn't fully locked in yet. But can you speak to the business planning of 2018 and how, necessarily – what happened along the journey of 2018 that led to the \$100 million delta that you have – I understand the buckets, but like what was the timing and reaction? Like why now? It's very rare midyear or three quarters through the year that we see this kind of change. Thank you.

<A - **Fareed A. Khan**>: So, two of the biggest drivers that I outlined. The first was a choice to continue to invest in the business. We talked, as we came into the year, about Q4 last year being sort of a kick-off for Deploy for Growth. There was a fairly significant set of investments above the prior year, primarily on brand building, especially around the big brands that we're coming out of DSD. And we expected that sort of stance to continue through the first half of the year. What we saw happening was the big brands responding really well to that investment. Good ROIs. We went through it today, right. We're really seeing that momentum coming through. And at the same time, some capabilities that we wanted to build for the future, some of those in RXBAR, some of those in e-com, other areas of the business, as well as some of the RTEC shelf and retail-ready that Doug talked about. Right? So as the year progressed, that was a call, that was a decision, that was a choice to be able to say, look, this is working and we're going to continue to invest in that.

We thought about it, do you pull back? Do we deliver what could have easily been a much stronger Q3? But that would have meant pulling that back and potentially risking losing that top-line momentum. And so, that was a choice. The second part was about the on-the-go area. And what we didn't fully appreciate was the degree to which that growth was coming at us. And then, the some of the pressures that that put in terms of the miles that I talked about, in terms of the complexity in the co-pack centers. And we also – while we haven't talked about a ton about it, that on-the-go, a kind of a single-serve momentum, we're seeing that in other parts of our business as well. So, those are also growing and those converged on that area so that supply chain pressure that was [ph] in efficiencies (3:48:11), those miles to market, those were unexpected to degree that we saw them.

And then, layer on top of that, the freight inflation that continued to accelerate that just puts a higher penalty on all of that. And so, those were the two, I think, primary factors. One, a choice to invest, the other one a choice to continue to go after that demand recognizing that for the short term; that's not going to drive the contribution margin for the long term. Now, if we'd felt that that was an unattractive business strategically, right, or didn't make sense for us to go into, we probably would have had a different stance. But those occasions, those customers, those channels, all of that is a great long-term potential for us and that's why we kept it going. It's really as simple as that, to be honest with you.

<A - **Steven A. Cahillane**>: And I'll just add one thing, to also address your question. We saw the beginnings of this, more than the beginnings of this, very early in the third quarter. Obviously, we talked to you about it at the close of the third quarter, so there is a lag time there. So, we made the decision early in the third quarter not to take our foot off the gas, but to continue to press against the demand creation. And that's why I said earlier, if there is a [ph] mea culpa (3:49:21), perhaps, we should have worked harder at mitigation plans or not taken as much faith in the mitigation plans, because it did get worse. But we made the conscious decision that we were going to continue to execute against our top-line strategy.

But we couldn't come public with it until the close of the third quarter, which is why it does seem sudden when you're three-quarters the way through the year and you're calling it down. But we knew much earlier than that that we were making these choices in order to continue to drive our top-line strategy.

<Q>: Thanks. So, Fareed, just a couple of cleanup questions...

<A - **Fareed A. Khan**>: Sure.

<Q>: ...on the slide you had talking about 2019. First, you talked about operating profit being in the range of 2018. That's absolute dollars, right, not range in terms of year-over-year decline? It's not percentage year-over-year, it's the range in absolute dollars?

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<A - **Fareed A. Khan**>: Yes. Yes.

<Q>: And then, both the revenue and the operating profit sort of direction, does that include the divested businesses in the base?

<A - **Fareed A. Khan**>: No. We left that out of the guidance. We're going into the process now, it's several businesses. We'll see how that plays out, what the timing of all of that's going to be. And we'll update you as we go through that.

<Q>: So, they're pulled out of the base here and out of the forecast...

<A - **Fareed A. Khan**>: No. We'll go back...

<Q>: Go back. Okay. Got it.

<A - **Fareed A. Khan**>: ...and we've said that all the guidance that we talked about today, the way we talked about the business, essentially, reflects that portfolio being in the business. Yes.

<Q>: In the business. Okay. Great. Thank you.

<Q>: Fareed, at the risk of getting a full no comment from you, I'd like to ask a couple things about 2019 below that EBIT line. Again, you probably will say no, but just tell me if I'm on the wrong track here. There's a couple things that I think could drag your EPS growth below your EBIT growth next year. You're going to have a different mix of your pension assets that should lead to more of a fixed income return profile, which is lower historically, right?

<A - **John Renwick**>: Yeah, this year.

<A - **Fareed A. Khan**>: Yeah. [ph] They started out (3:51:23) this year.

<Q>: So that doesn't change at all in 2019?

<A - **Fareed A. Khan**>: Yeah. That's right.

<Q>: Okay. Thank you for that. So, eliminate that...

<A - **Fareed A. Khan**>: So, we [ph] eliminate (3:51:27) the pension in 2019.

<Q>: Okay. So eliminate that, but also you do have a little bit of variable-rate debt, right? And obviously, interest rates have risen. And you also have a tax rate this year that, if memory serves, will be below 20% and you've talked about longer term that being above 20%. If that normalizes next year, what am I missing? It feels like EPS growth could be at a rate below EBIT growth.

<A - **Fareed A. Khan**>: All those are fair. Right. And I think the biggest driver of that was some of the discrete tax benefits that we saw this year. We had a pension contribution, have really sort of de-risked that, that would factor that into it as well. So, nothing you said I would disagree with.

<Q>: Just two more. One, on the reorg, you've obviously talked about some of the customer-facing simplicity and all that. But internally, does that impact anything on the variable cost side and how you think about resources or investments? And could some brands get more or less as a result of viewing the business a little differently. And then just second you touched a couple of different instances on some of the pricing, the price-pack benefit architecture from the cereal box resizing, and then just some broad RGM. Can you give any sense of magnitude and a little bit more color on that?

<A - **Steven A. Cahillane**>: Yeah. So thanks, and I'll start and Fareed – I think in terms of resource allocation, it's one of the most important element of the Deploy for Growth strategy, deploying resources where we have the best opportunity to grow. And I think the structure that we've had historically at one time served that very well, but in today's world actually inhibit some of that, because you end up needing to resource all of these different business units. You have to, otherwise they have no chance of being successful. Now with everything in one common business unit, executed successfully, the best opportunities for growth will get the investment, right? So, I think, just structurally, it's



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an unlock to more efficiently manage where we see the opportunities. So, I think that's the way I'd answer that.

In terms of RGM, I think, Chris probably said everything that we can say in terms of what – we're out there publicly in terms of what we've announced, what we've taken to the market. But we will not stop looking for opportunities to drive a better RGM performance in 2019. One of Monica's key initiatives and key accountabilities is to truly drive better RGM into the business. It's very, very important. And we believe, based on what we've done with the top line and with our investment, we've earned the right to go to retailers, go to our retail partners and say, we're growing the business for you, we've turned this around and if we're going to continue to lean in, then this is the type of RGM approach and collaboration that we're going to need.

<Q>: And for what you've gone out with already and what's public, can you give any sense of order of magnitude of what kind of impact that might have?

<A - Fareed A. Khan>: Well, what I'd say about the pricing, RGM is they're broad – and talking about U.S. right now, right?

<Q>: U.S., right.

<A - Fareed A. Khan>: So, pretty broad based, if you look right across the portfolio, you'll see initiatives in each area, sort of low-single digit types of range. But taking on whatever the relevant flavor is, in some cases, it could be a PPA type of work; in some cases, it could be broad based, and the timing of those also vary. I think you've heard us talk a little bit more about some of our frozen portfolio where we started earlier in that. More recently, it's been around our snacks business. But the important thing is that they're broad based across the portfolio. And if we get outside the U.S., the same sort of dynamics, right. I mean, there you get into currency variations and things like that that we match for. But RGM in its broadest form is a highly relevant capability. Monica is going to be driving some of that and it's in the market right now as we look forward.

<A - Monica H. McGurk>: Yeah, I would just remind everyone when Amit and Maria Fernanda shared their overviews, you saw lots of examples of how pack-price architecture work that I think is a proof point for how we execute that better in the world. The magic price points, the affordability plays, it's a very rich, integrated approach to RGM. We take price when we see the opportunity and then need to, but it's much more broad than that so that we are driving value into the category in partnership with our retailers.

<Q>: I just want to ask actually about 2020, believe it or not, when I think about the inefficiencies and the costs that you're incurring, by 2020, I'm assuming they'll be completely gone. And would 2019 be the base year from which that you can really grow and hit your growth targets? Is there any reason that that would not be the case as you get rolling through your portfolio management, past the inefficiencies, you really implement everything that you're kind of starting now? Is that the way to think about it?

<A - Steven A. Cahillane>: Yeah. Thanks for the great question. We said we're not to going give 2019 guidance, so you asked for 2020 guidance. So, there is some kind of prize available for that. But all kidding aside, I think it's a very – it's an excellent question and that's what we should be held accountable for, right. So, we see the path towards the algorithm. We see all the things that we need to accomplish in 2019 and we'll come back, again, in February to tell you what 2019 is going to look like and that should be the path to 2020 getting much closer to the algorithm, as we execute.

<Q>: Fareed, just I think it was in Steve's presentation, first up, there was reference to shared services. We haven't heard a lot of details about that. So just can you just walk through what milestones you've hit already in that program? What milestones are up for the next year or two? And of the Project K savings, how prevalent is the shared services savings within that number?

<A - Fareed A. Khan>: Yeah. It's a great question. Just for the audience, it's about our shared services. So as part of Project K, we went to a shared service model on a global basis. And it's a mix of embedded in the business, outside the business, domestically and also offshore, as well as [ph] using the (3:58:01) third party. So, it's a blend and it's been evolving, and primarily around transactional activities. And we've sort of been expanding that to other areas, so we're getting the cash record to report, that's stabilized. It's working generally well. These things always have challenges that

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you have to work through. But it set us up well for sort of the next stage.

The new model that Chris outlined for the North America, we're probably further ahead in terms of really thinking about the businesses holistically in other markets. And that's going to set us up for another layer of effectiveness and agility, right, because what we have now in North America is much more focus on categories. There is much more symmetry in the organization, as you saw. And then, we have sort of embedded in that more common platforms around the commercial functions, supply chain. And then, we can start to circle back through the whole model and say, what's the next set of efficiencies that could come out, just better information at the right time, leveraging digitalization and other technologies. And that's going to have implications back into our shared service activity.

So, right now, we have made good actions. It's stabilizing well. It's working well. And I think with these unlocks, we can take it to the next level. But it's a very important part of what we do. And underpinning that is just a commitment to good infrastructure, common IT platforms which we have really leveraging data and agility, that's coming up as well. So, thanks for the question. We don't get that a lot

<Q>: Just so it sounds maybe like fifth, sixth inning, and there's more to come, like 2019, 2020 and beyond?

<A - Fareed A. Khan>: I'm sorry, I couldn't hear the...

<Q>: Yeah. Maybe like in terms of the progress, maybe you're in fifth, sixth inning, kind of middle stages and there is more savings to come 2019, 2020 and then beyond?

<A - Fareed A. Khan>: Yeah. I mean, I think fourth, fifth inning because I think there is a lot of potential there. And when you start to overlay insights and analytics on top, I think that takes it even farther. So...

<Q>: Thanks, Fareed.

<Q>: Just a couple of questions. One for Fareed in terms of the long-term growth algorithm, I mean, I'm not a fan of asking algorithm questions, but the 1% to 3% long-term sales growth, that's not just organic, right? It's supposed to be half M&A and a half organic? Let me just...

<A - Fareed A. Khan>: Right. So, think about it – yeah.

<Q>: I mean, great presentations today, very insightful. Here, we all wonder which stock gets to rerate, long-term growth plays a factor. But 1.5% [ph] or (4:00:36) long-term organic sales growth is not that exciting, right? And so, correct me if I'm wrong with that. And related to the idea of thinking about the long-term growth algorithm, because cereal, it's so much more higher margin than your other products, right, and cereal is flat, emerging markets are growing faster, snacks are growing faster, but you're lower margin, it seems to me that you have a 40 bp to 50 bp headwind every year in terms of just trying to grow margins. Correct me if I'm wrong. And then, I have a follow up.

<A - Fareed A. Khan>: Great. Okay. Thanks for the question. So first, on the growth rate, again, we're coming off several years here of a declining top line. So, let's get to sustainable long-term growth and that's the focus area. But to answer your question, to think about the low end of that scale being organic and then with the M&A of the flavor that we've been doing, over time, the organic impact of that M&A would take us up to 3%. So, if you think about the acquisitions that we've made, all of them have inherently higher organic growth than our core, so they're accretive. That's true in Brazil. That's true with RXBAR. It's true with Multipro investments as well. And that's one of the important criteria that we look at, at M&A activity, right? So, that's a blend, but I would say that's more from an inherent organic growth that's coming through the M&A as opposed to bolting on potentially low-growth businesses that once you lap it, what do they really do for the portfolio. So, that's an important consideration.

I think in terms of RTEC margins, you're right. It's a very attractive business from a margin standpoint. All the more reason to stabilize it, keep it healthy. And it does generate a lot of cash and it does have fuel to reinvest back in. Now, in emerging markets, right now our margin structure is lower than the average. But we are just now starting to build scale in a lot of those markets and you could see that – if you take Nigeria, right, and you contrast that with India or where Brazil might have been a few years ago, we're starting to really get scale in West Africa, right. We're one of the biggest food players. With the Parati acquisition in Brazil, we're really starting to get scale in Brazil. We already have

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scale in Mexico. And that's some of the growth that MF talked about. We've got relevant food at the right price points and that comes with scale as well.

So, we think that over time as we build that, the emerging market's margins will improve. So while that trade-off is there today, over time, I think that will mitigate. And again, we'll be looking for growth in good top-line businesses as well as businesses that have a strong OP growth and margins.

<Q>: Got it. Thank you. And just a follow-up for – that's very helpful. And for Steve, when we look at the improvement in cereal in the UK, Australia, even Canada, is there anything that we should keep in mind about how those markets may be different in terms of product mix, whatever else? Why those changes could not be implemented as successfully in the U.S.? Is there something that – more exposure to [ph] kid (4:03:38) cereal or more to Special K, or none of the above?

<A - Steven A. Cahillane>: Yeah. The markets are actually very similar, much more similar than different. So, think about it on a time horizon, where we started first; so Australia, UK and now coming to the U.S. So, if we execute the playbook and when we execute the playbook, we're expecting the same types of results that we've seen in the other developed markets.

<Q - Rob Dickerson>: Thank you. Rob Dickerson, Deutsche Bank. Just a very quick question for Fareed. If we look back, call it, 10 years at Kellogg, at free cash flow, it's come in approximately around \$1 billion, might be \$1.1 billion, \$1.2 billion, \$900 million, what have you. This year, it's at \$1 billion. Now, obviously, given the forthcoming divestments, so the incremental cash that comes in, but kind of going back to Ken's question, 2020, if we're kind of thinking, in general, right, this all adds up to margin-accretive growth that should, hopefully, lead to a step up in free cash flow, right. And that to me is that's the point of all of it. So if we think about 2020 and beyond, right, the opportunity at Kellogg, just generally, like how should we be thinking about that free cash flow [ph] out (4:05:02)? Thanks.

<A - Fareed A. Khan>: I think it should be growing, right, and it should be growing as the business grows. And that's a very important focus area and we'll follow the algorithm that we talked about; getting the top-line growth, getting scale in emerging markets, really driving productivity in developed markets, and that should yield that – we've been doing a fair amount of restructuring the last few years and that's been a pretty significant use of cash as well. We're through a lot of the restructuring, if you look at where our cash is going from an investment standpoint back in, for example, if you look at our CapEx, project list that we look at, a few years ago, that would have been a lot more about right-sizing the network, exiting underproductive types of things. But the mix has much more shifted to growth in capacity globally, in innovation that's coming down the pipeline, and that's going to accretive to growth.

But the unlock there is really around driving that growth and then staying disciplined. And there has been some very solid work done at Kellogg around working capital management, optimizing inventory, working with our supplier programs, et cetera, and that will continue. So...

<Q - Rob Dickerson>: So just if we think about 2019 kind of sustaining a higher level of CapEx than history, and again, given kind of how we view 2019, right, more of an investment year, is it kind of a [ph] test, like should we understand testively (4:06:28), so to speak, that 2020 and beyond might be more normalize or we want to leave that flexibility open, just given the growth trajectory of the business?

<A - Fareed A. Khan>: Yeah. So, think more incremental versus sort of a massive change in what we've been doing, more towards growth types of investments. And like we're seeing on the commercial side, lot of attractive areas to put investments behind, and not just limit to one geography versus the other. I mean, there's some innovation at the back of the room that you try that's very interesting. There's capacity to support some of the growth rates that Chris talked about with Pringles, which is really expanding. We want to make sure the businesses have capacity that they need. And we talked about as well a little bit of catch-up to be done around the single-serve network in the U.S., but that's going to be more on the incremental than some sort of massive change in our stance.

<Q - David Christopher Driscoll>: Thank you. David Driscoll, Citigroup. A couple of questions. Fareed, just want to do a few clean-ups. Inflation 2018, can you just give us an update on where you expect that rate and then how does that

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trend in 2019? And then, I was going to [ph] throw three-year matchup (4:07:40), productivity, normal productivity typically runs like 3% to 4%. Is that the way you think about 2019? And then, on Project K, I think we did have numbers, like 2018 and 2019, that were something like midpoint \$170 million of savings for those two years, more weighted towards 2018. So, is it fair to say 2018's \$100 million; 2019, \$70 million, because I think these questions get asked like five times and if we can just get a little clarity, it'd be helpful for everybody. And then, I have a couple more serious questions for Steve.

<A - Fareed A. Khan>: Right. Can you just ask the first one again, just so I just...

<Q - David Cristopher Driscoll>: Inflation, just inflation. Super, super [ph] layup (4:08:22).

<A - Fareed A. Khan>: So, what we see for 2019 versus 2018 is an uptick in inflation, right, where the biggest pressure that we've seen this year has been around the freight and logistics side. And that's not uniform. That's very spotty, depends on the lane, some markets much more affected than [ph] other (4:08:35), and I think the whole industry has been seeing that. We have offset inflationary pressures with productivity and we've got a good track record of doing that and we're very committed to driving that. Where we potentially see more inflation coming down the pipeline, that's where RGM initiatives come in play. And so, what we have, as we finish up 2018, is an expectation that we'll see higher inflation in 2019 than we did in 2018, similar drivers, or maybe a little bit more on some of the commodities and ingredient side.

So, we've got to keep the focus on productivity as hard as we can. And then also [ph] incrementally (4:09:12) look at pricing initiatives, PPA initiatives, other ways to sort of support margins. So all of those are in the mix, but the short answer is we do expect more inflation. That's just not true in North America. We're seeing that on a global basis and kind of are preparing for that.

In terms of the benefits of K, I'd say, directionally, that's right. I mean we still – we're going to see some of the like the Richmond – or sorry, the Richmond – the DSD exit, right, was a big part of what we saw flowing into 2018 and we've been seeing those cost savings come through. It's been pretty significant, but in line with what we expected. The savings from the organizational shift, obviously, will that be more of a 2019 and there's a little bit of flow over on some other Project K initiatives. So between those two years, it's probably a little more heavily weighted to 2018 versus 2019, but we do see some savings in 2019. I won't give you the exact number, because we're still working through all the specifics, but that'd be generally.

<Q - David Cristopher Driscoll>: Thank you, Steve, two for you, just on the OP growth in 2019, is it fair to say that the reason why it's below long-term algorithm is like three-quarters of this issue is the margin impact from the single-serve decision? I think people are just trying to get a sense that 2020 questions, I like that question, it's a good question. And I think what we're trying to get at here is, is this headwinds in 2019, is it transitory? So if you didn't have a single-serve margin headwind, would you be pretty close to algorithm and then that you don't have to tell us 2020, I think, we could take the ball from there?

<A - Steven A. Cahillane>: Yeah. I think it's a fair way to look at it and say if we had an advanced supply – and this is not supply chain's fault, right. If we had an advanced supply chain that was where we need it to be, then if you see the 1% to 3% or you look at the top line and straight line it, and you see it, you would see a typical algorithm coming through, because this business has always been and businesses like this benefit from the leverage, from the leverage that comes with top line. And so, I think that's a fair way to think about it. If we had the advanced supply chain on January 1, then it would make a big difference.

<A - Fareed A. Khan>: Yes.

<A - Steven A. Cahillane>: Yeah, and we're still investing, but we'd have more flexibility. But this is something we have to go do. We have to advance the supply chain, so it gives us the capability to win in on-the-go.

<Q - David Cristopher Driscoll>: That's perfect. Thank you.

<Q>: I just had a question, goes back to a bit of an earlier question where you showed, Fareed, the slide, where it's like 1% growth, and then Deploy for Growth, which included M&A. So I guess just so I understand it, Deploy for Growth, I



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thought about some of the investments you're making, like that would be in that 1% growth or is M&A, which you're trying to refer to, is Deploy for Growth, is it?

<A - Fareed A. Khan>: Well, Deploy for Growth is the whole strategy, right.

<Q>: Right.

<A - Fareed A. Khan>: And so, in that is things like win at occasions and build great brands, service perfect store, those all ultimately get to organic growth in the businesses. And then there's shape of portfolio, which can be leaning in to businesses for organic growth as well as M&A. And what you've been seeing us doing come out of the gate is really work that portfolio shift. So, RX brings new occasions, more fueling, more performance lifestyle, but it also brings accretive organic growth, just given the potential in that business, as you saw same thing with Multipro for different reasons, same thing with the Parati acquisition. So, the two go together, but you put the whole thing together, what we're basically saying is, with a little bit M&A, we should be in the higher end of range.

Obviously, there'll be years like 2018 where you'll have a new acquisition come into our adjusted rates and you'll have, for example, 5% for the full year or 9% in Q3 type of growth rate, that 1% to 3% is more sort of what we expect the organic growth rate to be in the core as well as the contribution from M&A that we would do. It will probably, realistically, be chunkier than that, right, as you layer it in.

<Q>: And is M&A a higher priority today than it's been? And I guess, related to that, is the organization at a place where they can undertake more or larger-scale M&A, while you're doing all this work that [ph] mostly will be (4:13:44) North America, but are you in a place to accelerate your M&A activity is the question?

<A - Steven A. Cahillane>: I would say, we're not going to give guidance on M&A – M&A is opportunistic, right, but we do have an M&A strategy. So part of shaping a growth portfolio is also acquisition. But, historically, you know going back to Keebler, and Pringles and, most recently, Multipro and Parati, the company has been active in M&A and you should expect us to continue to be active. Last questions.

## Steven A. Cahillane

All right. Well, once again, big commitment in time, appreciate your interest very much in the Kellogg Company, and thank you very much for coming.

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