Company Name: Kellogg
Company Ticker: K US
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Event Description: Barclays Consumer Staples Conference

Market Cap: 25,171.90
Current PX: 72.61
YTD Change($): +4.63
YTD Change(%): +6.811

Bloomberg Estimates - EPS
Current Quarter: 1.066
Current Year: 4.496
Bloomberg Estimates - Sales
Current Quarter: 3421.133
Current Year: 13512.611

Barclays Consumer Staples Conference

Company Participants

- Andrew Lazar
- Steven A. Cahillane
- Nigel Hughes
- Clive Sirkin

MANAGEMENT DISCUSSION SECTION

Andrew Lazar

We are very pleased to welcome Steve Cahillane to his first Barclays Global Consumer Staples Conference as CEO of the Kellogg Company.

Kellogg has spent the past few years optimizing its cost structure, stabilizing key brands like Special K. But with the new CEO and relatively new CFO, the company has moved to revise its strategy and reshape its portfolio behind a renewed emphasis on growth. And with a solid start to the year and a well-executed DSD to warehouse transition, this focus on growth seems to be paying off.

Steve, welcome to the conference. We look forward to hearing more about the new Kellogg playbook in your presentation today. Thanks again.

Steven A. Cahillane

Thank you, Andrew, and good morning, everyone. Before we start, I have a few words from our lawyers. Slide number 2 shows our usual forward-looking statements disclaimer.

As you are aware, 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. For further information concerning factors that could cause these results to differ, please refer to the second side of this presentation, as well as to our public SEC filings.

Our whole discussion today is geared towards and around our central theme. The very real changes we are making in order to change the growth trajectory of Kellogg Company. And I think you'll agree that there has been significant visible change over the last year. Obviously, there has been change in management. I arrived in October of last year and we have new people heading North America and Europe, as well as certain business units. All of this transition has been orderly and it has lent some new perspectives to the business.

We've launched our Deploy for Growth strategy. This formally shifts focus toward top line growth. Now, the cost structure has been properly identified. Today, we'll talk more about some of the less visible changes that Deploy for Growth has prompted. We've largely completed our Project K restructuring. This has reduced our cost structure, and it included the transition out of DSD which freeze up resources for U.S. Snacks to invest behind its brands while enhancing its profitability.

We've acquired RXBAR, increased West Africa investment, and consolidated Multipro. These investments clearly enhance the growth profile of our portfolio. We've ramped up our investments in our brands. This is not just spending for spending's sake. This is behind better commercial ideas, with higher ROI activities, some examples of which we'll share in a moment.

These results are already bearing fruit in the form of improved financial results. We've improved our top line performance. In fact, if you exclude the mechanical impact of the DSD exit, we returned to organic net sales growth in the first half. We've got big brands back in growth led by Pringles and aided by increased and effective Brand Building investment.

Our emerging markets businesses accelerated their organic growth, both in cereal and in snacks. Our U.S. Snacks business continues to improve its in-market velocities, reflecting a stronger shelf and increased brand-building support now that we're out of DSD. In recent months, we've even started to gain share in these snacks categories. And we've stabilized core international RTEC markets, proving that our model is effective as we work to stabilize our key U.S. cereal markets as well.

We've also increased operating profit even amidst double-digit increases in first half Brand Building investment. We've covered rising freight and packaging costs with productivity and savings and we've reduced our overhead. We've taken advantage of U.S. tax reform to derisk our pension and to help fund promising acquisitions and investments. It's only six months and no one – to be clear, no one inside our company is declaring victory, but our performance this year is encouraging.

Today, we'd like to share with you some of the changes we are making. These are changes that may be less visible to you or less appreciated than they should be, but they are changes that support our Deploy for Growth strategy, and they are directly contributing to what we see as an improved growth trajectory.

I'll start with the changes we made in our portfolio and in our footprint, because while we have discussed them previously, we believe it is worth emphasizing the positive long-term impact of these changes. Deploy for Growth has us deliberately and actively shaping our portfolio for growth, and we've made good progress. We're expanding our geographic footprint both in terms of countries we have expanded into or even distribution we've extended within particular countries.

We're identifying occasions where we don't have a particular food or brand. And we're either developing them or we're acquiring them. And we're delivering on emerging consumer needs, be it affordable offerings or on-the-go pack formats, or simple ingredients. You'll hear examples of all of these this morning.

Let's step back and look more broadly at our portfolio. Back at CAGNY in February, we offered you a new way to view our portfolio. Many were surprised to learn that Developed Markets Cereals is less than a third of our annual net sales.

Our long-term expectation is that this portion of our portfolio is relatively flat over the long term, similar to the last few decades. Some years in decline as food believes shift some years in growth, as we remind consumers of cereal's overall wellness attributes. Through the first half, our Developed Markets Cereal sales were down only modestly, cutting its 2017 decline rate in half. We're clearly on the path to stabilization.

Nearly half of our net sales come from Developed Markets Snacks today. We think this portion of the portfolio grows at a low-single-digit rate over time in line with our categories. Pringles continues to grow across these markets. And now that we're out of DSD in U.S. Snacks, enabling us to better support our brands, we're turning toward growth in our other categories as well. In fact, excluding the mechanical impact of our DSD exit, Developed Markets Snacks sales in the first half of this year were already back to growth.

Developed Markets Frozen is less than 10% of our portfolio, and we would expect it to grow at a low-single-digit rate over time. But Frozen Foods are on trend right now and we grew this business at a double-digit rate in the first half.

And then there are emerging markets, which now comprise almost 20% of our portfolio. This is where population growth is occurring. This is where disposable incomes are rising enough to afford Western-style packaged foods. And we're already growing faster than our long-term target of mid-single-digit organic growth in these markets. So, our footprint has changed and it is already altering our growth trajectory. And within each of these portfolio segments, we have great brands. In Developed Markets Snacks, our biggest brand had sustained growth sustained growth for years and had even accelerated growth more recently.

Meantime, we have a number of other brands that simply couldn't compete for brand investment back when so much of our U.S. Snacks P&L was tied up with declining ROI DSD overhead. They're now starting to get brand investment dollars and we're already starting to see them respond. Don't overlook the fact that we too have challenger brands. RX is the fastest growing brand in wholesome snack bars. Pure Organic is a brand we have barely scratched the surface with and we are rolling out Kellogg and Be Natural brand snacks around the world.

In Developed Markets Cereal, we have huge well-established brands already back in growth. We also are making progress in stabilizing other big brands. This shows that brands really do matter and that they can be revitalized with strong ideas, adequate investment, and strong execution. I'd also point out that we own some wonderful challenger brands in Developed Markets Cereal as well, brands that resonate with natural food seekers and with millennials seeking simpler ingredients.

In Frozen Foods, we have a very focused portfolio with two brands that feature both scale and momentum. Eggo accelerated its growth last year with the removal of artificial ingredients and the launch of Disney-shaped waffles. It sustained its growth with the re-launched of its thick and fluffy sub-line. This brand is in better shape than it's been in a very long time.

And Morningstar Farms is also in strong growth. We kicked off its growth with a refocus on core items, weeding out SKUs that took the brand too far from its core positioning. We renovated its food and packaging, and its consumption growth has been exceptional. If you think about the consumer trend toward plant-based protein, you can certainly see a strong future for this brand.

Let's talk a bit more about emerging markets. It's one thing that we built emerging markets up to nearly 20% of our portfolio, making good on a promise we made five years ago to double our presence in these growing markets. But it's also important to dig deeper into what we have done with our emerging markets portfolio. While cereal consumption steadily grows in these markets, we have dramatically increased our growth profile by diversifying into snacks and other categories. It started with Pringles and accelerated with acquisitions of strong local snacking businesses in Egypt and Brazil, and it continued with noodles in West Africa.

As we've disclosed previously, snacks now account for nearly half of our emerging markets volume. And now that we have added Multipro and its distribution of noodles and other products, our portfolio has more non-cereal than, in fact, it has cereal. Like our other segments, our emerging markets portfolio includes some very powerful brands. First, it includes some of our biggest, strongest, supported global brands. In recent years, we've also launched products under the trusted Kellogg's name, a master brand strategy that has enabled better speed to market with immediate brand recognition.

And don't overlook our local brands. They're strong with long histories and solid awareness, and they're expandable, leveraging Kellog's scale and innovation and brand building knowhow to move beyond their geographic strongholds. And for all of these brands, we have been testing and launching pack formats that offer affordability and convenience, giving us another way to grow these brands. So, in just a few years, we have built up a more sizable emerging markets presence and one that features a portfolio that has moved well beyond cereal. The result has been an acceleration in our emerging markets' organic growth this year, and Multipro isn't even included in our organic growth results as of yet.

We feel very good about our prospects for emerging markets. It may be surprising to some people just how large our emerging markets business has become. In fact, as shown on this slide, our emerging markets sales, as a percentage of total sales, is among the highest in our peer group. And within this peer group, emerging markets' presence tends to differentiate growth rates over time. There has clearly been change in our portfolio and footprint, and it is already having an impact on our top line growth trajectory.

With that, I'll turn it over to Dr. Nigel Hughes, our Global Head of R&D, who will offer you a glimpse into some of the changes we've made and how we innovate in our foods. Nigel?

Nigel Hughes

Thanks, Steve, and good morning to everyone. We all know innovation and renovation are critical for growth. So, it's no surprise that it comes up in a few different ways under our Deploy for Growth. For time reasons, I'm only going to touch on a couple of these, really focusing on our food. After all, it all starts and ends with the food.

I came to Kellogg just over a year ago after leading packaged food for a few years. What attracted me to this company was its rich heritage in health and wellness, including a clear strength in innovating new foods and communicating their health and wellness attributes. This goes all the way back to the company's founder. This company was literally founded on the basis of plant-based foods and what was then the leading edge of scientific understanding of diet. Simply put, I saw a great opportunity for the company to get back to its food roots and what it was so good at.

What I discovered when I got here was the following. First, around mega-trends. The same mega-trends that were prominent a few years ago are still around today only amplified considerably. Snacking convenience were trends then, and they're even more so today. And digestive health and plant-based protein were emerging trends then, and they are today fully-blown mega-trends.

Second, it fits with our portfolio. These mega-trends are great news for Kellogg because whether you're talking about snacking or convenience or digestive health and plant-based protein, Kellogg's portfolio, our foods, our brands, and our heritage, can play extremely well in these areas.

Finally, a new approach. What was needed wasn't new trends or a new portfolio. And in a short amount of time, what we have changed is our approach, getting us to think differently, and move faster, and we're starting to see the results of this. Let me explain each of these in a little bit more detail.

Let's start with the mega-trends focusing on health and wellness. Consumers are already aware of the importance of gut health and the attributes of plant-based diets and their implications for animal ethics and the environment. In short, consumers are starting to demand fiber and plant-based protein, and Kellogg Company can deliver both.

The benefit of a plant- and seed-based diet have been proven. Plant-based diets inherently deliver micronutrients and eliminate fats and free radicals. And as the sciences emerged, so have new techniques for modifying plant's specific profile to proteins and other micronutrients. This is great news for us. Our heritage and portfolio are all about plant-based foods.

Here's a mega-trend that has re-emerged more recently, digestive health. It has re-emerged in a stronger way because of genome mapping technologies. We now know the role of the microbiome, how it's different in each of us and how important it is to maintain diversity in each of our biomes. There are clear links between gut health, physical health and brain health. This area is rocketing in awareness.

Books are being published and scientific publications are citing the biome at an accelerated pace. And the rate of increased attention will only continue to increase as gene sequencing becomes more and more accessible and as human studies continue to be conducted. So, the science is here and the groundswell of buzz and consumer interest is only going to increase. The good news, Kellogg already specializes in grains and fiber, the cornerstones of a healthy biome. This trend plays to our strength.

So, the opportunity is evident. But to truly take advantage of these mega-trends, we had to change our approach to innovation. We made strategic, structural and process changes, all geared around three basic elements. First, scientific backing. We're leveraging science in a bigger way. Many of our brands already play in gut health and plant-based protein, but there's so much more we can do. We just need to be sure this comes out in our food and that we remind consumers about it.

Second, great taste. No matter what you read, taste is king for consumers. We've added culinary talent, and we've explored new ingredients and flavors. Everything we make has to taste great. Third, a more agile innovation model. We've improved our speed to market, willing to fail fast and fail cheap. We're doing more prototyping than ever before. We're launching products in very specific markets or channels learning from them before we're expanding distribution.

And fourth, we're open to ideas from anywhere. These ideas are about foods, about packaging, about brand communication, anything that excites the consumer. In an intensely competitive marketplace, it's the quality of the ideas that matters most. Kellogg's internal R&D capability is a strength, but we're also starting to look for new ideas in some very unconventional places: the New York City Café, our cereal cafe in New York; The Hatchery, a Chicago-based food incubator; Eighteen94 Capital, our in-house venture capital fund; Tiger Tank, an in-house incubator for the development of employee proposed ideas; Moonlighting, an internal innovation competition; and our new marketing models, which Clive will touch on later. So, these are the key elements of our new approach.

Now, let me bring it to life in the form of recent examples. We've used this approach to selectively renovate existing foods. There are a couple of examples. Eggo's accelerated consumption and share growth over the past 12 months was kicked off with the removal of artificial colors in ingredients. We sacrificed no taste, but we gave consumers something they valued, and it worked. In the UK, we removed 30% of sugar in Coco Pops. Again, we did this in a way that didn't sacrifice taste, in fact, consumers preferred it, and it turned this brand around boosting its consumption by more than 8% since we started communicating the renovation.

We are also using our food and effective communication to reshape food beliefs. Special K was previously positioned as a diet brand, but today's consumer isn't looking for diet food. Through thoughtful renovation and innovation and a repositioning to inner strength, this brand has stabilized its share in key cereal markets around the world.

On digestive health, if you need evidence that consumers are ready to seek that again, look no further than Australia. Here, we didn't have to do anything with our food. It already met the science-based needs of our consumer. We simply reintroduced gut health via our effective communication on air and on pack, and these brands bounced back to growth.

A new approach also has its launching innovation that is potentially transformational, but doing so in a way that enables us to test and learn. I'll just point out three of these. joyböl is a smoothie bowl unlike anything in the marketplace. It offers on-the-go convenience along with the satiety that comes from high protein and its chock-full of goodies that consumers love. We launched it in certain food service customers in the U.S. and have recently brought it selectively into other channels here and in the UK. We're learning along the way.

Kashi by Kids is our latest entry into natural foods. But here's where we took a different route. We had this cereal designed by kids. Kids are passionate about natural foods and the environment. We literally took a panel of kids and asked them what they wanted from a cereal. The result is an organic-based low-sugar cereal with unique food forms, and again, no sacrifice on taste.

Happy Inside is just launching now. This will be a line of cereals and bars that provide a unique helping of digestive health. Specifically, Happy Inside offers prebiotics, probiotics, and fiber in a single food. We've launched it in e-commerce with a measured rollout into other channels planned over the course of this year and next. To be clear, none of these are bet-the-farm investments. But they are differentiated foods with obvious wellness benefits, and they're being rolled out in a quick to market fashion so that we can learn and adjust. This is very clearly a new way of innovating for the Kellogg Company, and we think it will underpin improved performance in the future.

Let me now turn it over to Clive Sirkin, our Chief Growth Officer, to walk you through changes we've made to how we build our brands.

Clive Sirkin

Thanks, Nigel, and good morning, everyone. Our Deploy for Growth strategy requires a complete reset of how we build brands, a reset that's necessary for us to compete and win in a digital economy. It starts with foundational discipline as we'd expect, driving to food delights as Nigel illustrated, and all of this is built on the insights that we turn into advantage ideas. But ultimately, the rubber hits the road in terms of commercial excellence, and I will focus on that over the course of the next few minutes.

We're only on our journey that we've made substantial progress along the way. The transformation that we're driving is built on data and advanced analytics. We have better data today than we've ever had. In fact, we have one of the largest first-party databases in the CPG industry, and we're rapidly expanding and deepening it. Critically, we're doing it in a way that's fully compliant with GDPR. Most importantly, we're linking this database to purchase data, which allows us to target at a behavioral level and has allowed us to go after at a consumption level. And as you all know, this is something that has been elusive in the CPG space.

In addition, we're deploying a people-based targeting capability called Kellogg's ID. That allows us to target at an individual level versus the historic practice of using cookies to target at the device level. This unlocks the ability for us to understand the full picture [ph] at an (00:24:52) individual across all of their devices, enabling us to better understand them at a behavior level, better target them and, as a result, better match content to them in a relevant way. Additionally, it enables us to gain a more nuanced understanding of the impacts of our marketing on sales.

Lastly, we're leveraging our [ph] acute (00:25:11) capability to monitor and respond to all our consumers 24/7 and optimize medium content on a weekly basis. As you can imagine, this is having a direct impact on the ROI of our marketing investment. Bottom line, we become much more data and analytics-driven and we believe this gives us an edge over our competitors.

As you would expect, we have moved well beyond the TV-first and TV-based media model. We're building our marketing programs with an influence to advocacy and peer-to-peer bias at the core of our media approach, and this has led to a significant shift of our media mix toward digital. Importantly, this is a consequence of the model, not a chase towards a predetermined target in terms of digital spend. Our marketing mix analytics supports the shift and we're constantly measuring to show that the data drives the decisions. This kind of transformation doesn't just happen. It required a rethink of our talent base, a rethink of our competencies, our capabilities and our processes, and it's starting to drive the results, and we are committed to this journey.

As you would imagine, e-commerce or data-driven commerce is a key part of our Brand Building model. We can frankly spend this entire presentation talking about this exciting space, while still a very small percentage of our sales is clearly a strategic growth channel for us in a critical lever in how we build our brands. We're investing ahead of the curve to get out in front of the space both in terms of talent and capability. We're focused both on getting the fundamentals right as well as aggressively going off to white space and innovating in this channel. We're using the channel to open up new occasions. We're using it increasingly as the lead channel in launching and incubating innovation.

RXBAR has been a wonderful example of leveraging e-commerce to fuel the growth of that brand. And as you heard, we've learned a lot from testing direct-to-consumer on Bear Naked, and we're leveraging e-commerce to test and learn on joyböl and Happy Inside.

We're also leveraging this channel to open up new consumption occasions, witnessed the recent 30-minute delivery program behind Pringles and the World Cup in Europe where we drove a 53% increase in retailer bundled sales during the World Cup.

This taking a data-driven approach to building new consumer and shopper experiences around untapped occasions means we're driving accretive category growth for us and our partners, just another way we're driving change in our Brand Building.

As you can see, we're measuring everything we do, and as you would expect, we are measuring everything we do. And we're seeing improved results. We're generating higher ROIs driven by impact while consistently driving down cost per impression and, at the same time, keeping a close eye on the quality of impressions we're putting into market. This is a week-in, week-out process of agile optimization, and we're constantly learning and adjusting on the fly. Our brands are responding, but clearly, we're still in the early innings of this journey.

So, let me bring to life some examples of this approach. As I pointed out with our data-driven targeting capability, we can serve content that is more relevant and, as a result, more effective. Just a few examples, on Rice Krispies Treats, in addition to our interactive packaging where parents could write a note to their kids before they dropped the treat into the lunchbox or backpack, we partnered with Google to use their Director Mix technology for mass customization. We delivered 110 dynamic messages customized to the content that the consumers are watching on YouTube.

On Cheez-It behind our college football sponsorship, we created 300 pieces of content customized by interest and team affiliation. And we were able to reach college football fans wherever they were following the game. This approach yielded the highest ROI in any of our brands last fall.

In a world of automated shopping, we're actively experimenting with voice. For example, on Special K as part of the reset of this brand, we built in voice activation within the program, and as you heard, we've grown consumption in U.S. Cereal on this critical brand.

Similarly, on Mini-Wheats, we're increasing driving personalization behind our new brand positioning and our new campaign and the brand has stabilized behind us. We don't necessarily view this as revolutionary, just a simple byproduct of the change in approach and the right way to build brands.

Now, even as we get into next generation marketing, we haven't forgotten the fundamentals, the basics, like getting consumers to discover and experience our food. As part of this, we're moving away from mass sampling to curated sampling that prides a more of a dynamic way for consumers to experience our food, and as a result, challenge their perceptions.

The Kellogg New York City Cafés generate impressions, over $2 billion since its inception, and it's giving us valuable insights in how consumers think about cereal. Cereal has always been a snack. In fact, in the U.S. alone, it's about 30% of the category. And for Kellogg's, it grew 14% last year. We're tapping into that consumption by highlighting the versatility of our food and that will [indiscernible] (00:30:36) on Corn Flakes where we've built a campaign around different ways and different times of days to get the perfect bowl of Corn Flakes and pull Corn Flakes into double-digit consumption growth.

Eggo and Morningstar Farms, food trucks have been centered around the concept of challenging consumer's perception of the food. And whilst we have driven media impressions and created curated brand experiences, we've driven sales overall behind this program and importantly more so in the retailers that featured the trucks.

Now, the shift from mass communication to targeted and customizing communication allows us to be more relevant in our creative versus playing to the lowest common denominator. The result is a content that is reflective of the particular consumers we're targeting and whilst it might be edgy, it's not edgy for edgy's sake. It's designed to be authentic and relevant for the consumers we're targeting, and it's more certainly not your father or grandfather's advertising.

So, let me summarize. We're not just investing in Brand Building, increasing our Brand Building. We're literally changing the entire approach to building brands from the way we use data to the way we leverage analytics to how we target and how we serve communication to that target. We're leveraging technology in new ways, we're resetting our talent base, and the results are encouraging. It's working.

So, with that, I'll turn it back to Steve to wrap it all up. But first, I thought you'd get a little kick out at some of the RX content that we're pushing now. If you could just play the tape.

[Video Presentation] (00:32:15-00:32:30)

Steven A. Cahillane

[audio gap] (00:32:31) Clearly, Deploy for Growth has us making meaningful changes to how we do business. But what matters most to you is that these changes produce a meaningful change in our growth trajectory over time and we think that they already are.

This organization has already done the wrenching work required to reduce our cost structure. We are in the final phases of Project K and we have zero-based budgeting, firmly incorporated into the way we work. We're now in the second stage shown on this slide, pivoting our attention toward growth. We've changed the way we innovate and build our brands, as you've just heard, and we've stepped up the investment behind our brands. Our brands are responding, but there's still more work to do.

We're investing in pack formats. These are pack formats that get after single serve occasions or create more affordable offerings where it better suits specific channels. We like the early progress in this area and we're investing in capital to bring more of this packaging in-house to improve our margins over time. We're investing in capabilities from digitization to data analytics to e-commerce to processes and of course to our people. We're investing behind better commercial execution. And we're shaping our portfolio as we discussed earlier.

What excites me most is that we're applying the same intensity and executional focus to this investment in growth that was so successfully applied to our cost reduction over the course of the last couple of years. This is why we're confident that we can ultimately emerge from this investment stage with a growth trajectory that is markedly different from recent years. One that features a balance of steady consistent top line growth, balanced with steady, consistent margin expansion.

So, let me summarize. Our results are already improving. You can see this in our first half results. Our cost savings have been able to offset rising cost inflation. We're investing and it's early days, but we do like how our brands are responding. Our portfolio is stronger. We have clearly shaped it toward growth be it geographically, be it in terms of categories or be it in terms of brands. We're very pleased with recent acquisitions in Brazil and West Africa and our emerging markets are now a bigger part of our portfolio.

We have enhanced our capabilities. We only touched on a few of these capabilities today, namely Brand Building and innovation. But Deploy for Growth also has us investing in pack formats, in improving supply chain flexibility and efficiency, in enhancing our in-store execution, in leveraging new technologies, and in the development of our people.

What this all adds up to is increased confidence in our ability to get this company back to a long-term trajectory that translates into consistently strong returns for our shareowners. This will not happen overnight. There's plenty more to do, a lot of hard yards to gain, but we really like our progress so far.

And with that, we'd be happy to take any questions that you might have.

Q&A

<Q - Andrew Lazar>: Good. I'll kick it off. We've got time for one or two. Steve, first off, you talked about how Kellogg has challenger brands of its own, and there's certainly a lot that, let's say, the RXBAR folks can learn and leverage from Kellogg. I'm curious though what is it do you think from a company like RXBAR that actually Kellogg can get out of that relationship beyond obviously owning the brand and everything else, but more of the culture of an organization like that and how does that translate maybe to Kellogg.

<A - Steven A. Cahillane>: I think if we do this right, I believe that RXBAR will change the company more than the company will change RXBAR, which gets to the heart of your question. They innovate quickly, they innovate smartly, and they innovate with the consumer at the focus of everything. And I think they've already speeded up our innovation process because we've learned to do things faster, more consecutively based on the learnings that we got from RXBAR. They are probably 80% faster than we are today. And if we can cut that in half, we'll bring brands to market much, much faster.

And the other thing is you have to strike the right balance between – when you're a big company, you'll often innovate more slowly than smaller companies because when you're small and you have nothing, you have nothing to lose. You can get it out there. When you're large, you tend to be conservative because you have to protect the brands along the way. And that can lead to overly conservative behavior.

So, I think on balance, we'll innovate faster, we'll innovate more creatively. And that's not only in the product space, that's also in the commercial and communication space. And I think RX is one of the really great companies that's having dialogue with consumers rather than at consumers. And we're learning a lot about rapid response and, what Clive talked about, 24/7 communications with consumers based on the way RXBAR does it.

<Q - Andrew Lazar>: [ph] And as you're presenting here – (00:37:49) yeah. We've got one right here.

<Q>: So, you just said that you have cost saves to offset inflation, but can you take pricing in this inflationary environment because nobody believes that you or your peers can?

<A - Steven A. Cahillane>: First, I would say nobody believes. We certainly believe, and if you look over the course of the long history of CPG, there has been pricing over time. I think we are in – the last several years has been a bit of a shift in terms of more e-commerce, more disruption in retail. You have small format, small box, you have a lot of pressure around pricing in the marketplace because no retailer wants to be uncompetitive. And that's the driving force and dynamic behind it.

But over the course of time, our first goal will always be to cover cost inflation with productivity because that's the best way to do it. That keeps the consumer at the heart and soul and makes our food consistently affordable, which is very important to us.

Now, having said that, we also have a revenue growth management strategy and capability that seeks to actually expand our margins over time, which is at some times price, which is sometimes mix. But it's overall driving more margins into our company over time.

And then, the final comment I'll make is I always preach within our company that we should never talk about taking price because there was never a day where you'd go with your big list price adjustments to a big retailer and say, here's my new list of prices this year. You see them reflected on the shelf and off you go. It was never that way. The best companies earn price over time, and that's because they're investing in their brands and they're creating consumer poll for their products.

And there's a number of examples where we've done that. I'll give you one, Eggo Thick & Fluffy, which we mentioned in the presentation. It was a line that already existed, but we changed the packaging to differentiate it from the core offering. We introduced one new SKU, a thick and fluffy chocolate SKU, and we earned a 12% price increase on that, and the elasticity was almost zero. And so, the 12% price increase was reflected on the shelf. It was reflected in our margins, and the retailer held their margin while taking the price up so there's more pennies in the till for them, and everybody's happy.

Consumer is happy because they have a new offering that they like and they're buying at the same rate. Retailer is happy because there's more pennies in the till. And we're happy because we have an exciting new innovation that expanded our Eggo margins. And that's a good example of what CPG companies have to do to earn price over time. But I don't believe in the dystopian universe where CPG margin contracts over time and inflation is gone from the United States, which I think is principally what you're talking about.

Andrew Lazar

Great. Thank you very much. We'll have to cut it off there, and we'll head to the breakout. Please join me in thanking Kellogg.