



Conagra Brands
Q2 FY25 Earnings Call
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CORPORATE PARTICIPANTS

Melissa Napier – *Senior Vice President of Investor Relations*

Sean Connolly – *President and Chief Executive Officer*

David Marberger - *Chief Financial Officer*

PRESENTATION

Melissa Napier

Good morning. This is Melissa Napier from Conagra Brands' Investor Relations. Thank you for listening to our prepared remarks for the Conagra Brands second quarter and first half fiscal 2025 earnings. At 9:30 eastern time this morning, we will hold a separate live question and answer session on today's results, which you can access via webcast on our Investor Relations website. Our press release, presentation materials, and a transcript of these prepared remarks are also available there.

I'm joined this morning by Sean Connolly, our CEO, Dave Marberger, our CFO, and Matthew Neisius, Senior Director, Investor Relations. We will be making some forward-looking statements today. And while we are making those statements in good faith based on current information, we do not have any guarantee about the results we will achieve. Descriptions of our risk factors are included in our filings with the SEC.

We will also be discussing some non-GAAP financial measures. Please see the earnings release and the slides for GAAP to non-GAAP reconciliations and information on our comparability items, which can be found in the Investor Relations section of our website.

I'll now turn the call over to Sean.

Sean Connolly

Thanks, Melissa, and good morning, everyone. Thank you for joining our second quarter fiscal 2025 earnings call. Let's begin on slide four.

Our second quarter results reflect the fact that we continue to win with consumers despite ongoing economic pressures. We saw a return to growth in Q2 as we drove volume improvement, an organic net sales increase, and market share gains, demonstrating the continued strength of our innovation and strong execution by our team.

These results highlight the enduring power of our brands and the effectiveness of our focused investments, which have reinforced our leadership in large important categories. While we expect our top-line momentum to continue in the second half, our profitability will be pressured by higher inflation and unfavorable foreign exchange rates. Accordingly, we are updating our financial guidance for the remainder of the year.

Our revised guidance reflects both our prioritization of continued momentum with the consumer and our expectation that the inflation relief we previously expected in the second half of fiscal 25 is still forthcoming, but in fiscal 26. As I noted, economic pressures continue to shape consumer purchasing decisions. We're still seeing value seeking behaviors, with consumers prioritizing affordability and maximizing value.

Across the industry, manufacturers are deploying a similar playbook to address these challenges, increasing investments in advertising, promotions, trade initiatives, and innovation. These measures are designed to appeal to increasingly stretched consumers and drive growth, but the consumer response to these investments has varied significantly by category and by company.

On slide six, you can see Conagra's investments have driven a strong response. In Q2 of last fiscal year, I stated our commitment to invest more to put the inflation-driven volume declines in the rearview mirror, with the goal of returning our portfolio to growth.

Since then, we have seen our investments drive steady progress, and in Q2 it was satisfying to see that return to growth materialize. And since we believe future cash flows and long-term shareholder value will best be served by way of continued top-line momentum, our strategy will not change in the second half.

Let's take a closer look at how this strategy translated into our performance this quarter. On slide seven, you can see how our proven playbook, which centers on modernized products and focused investments to support our innovation, have driven positive volume recovery in our key domestic retail business.

This builds on the trends we've seen over the past year. And while the revenue mix was a bit different due to the value-seeking behavior shifts I discussed earlier, our track record of navigating today's difficult operating environment reinforces our confidence in continued volume recovery.

The effectiveness of our strategy and resiliency of our portfolio are particularly evident on slide eight. Here you see our outstanding share performance throughout fiscal 24 and the first half of fiscal 25. 67% of Conagra's portfolio held or gained volume share in the second quarter, marking the fifth consecutive quarter of share gains.

And our share performance is even stronger in our highly strategic frozen and snacks domains, where 87% of our portfolio held or gained volume share in the second quarter. Further, our share performance again outpaced our near-in peer set. In fact, slide nine shows we outperformed our closest peer by 24 percentage points.

Turning to slide 10, as I emphasized last quarter, our volume progress and strong share gains continue to be driven by our disciplined approach to brand building rather than heavy discounting. The industry merchandising environment remains rational, with two key metrics providing a clear picture: the share of volume sold on promotion and the average discount on promotion.

Our volume share sold on promotion remains consistent with historical norms. Both today and in the pre-pandemic period, the volume of our sales on promotion remained below our closest peers. When we do engage in promotions, the discounts are targeted, reinforcing our commitment to thoughtful brand management. Said differently, Conagra remains less reliant on promotions to drive volume and maintains a disciplined approach to prioritize the long-term health of our brands.

Turning now to our domains, beginning with frozen. We continued to see strong improvement in Conagra's frozen consumption as demonstrated in our Q2 volume sales, shown on slide 11, which have been improving for five consecutive quarters. And when we take a wider perspective, as shown on slide 12, our Q2 volume sales growth continued to outperform the total edible category and the overall frozen department as well.

This growth is driven by a return to convenience, contributing to strong volume share gains in single-serve meal brands like Banquet and Marie Callender's, as well as increased share in Birds Eye Vegetables and our multi-serve meal brands.

Taking a closer look at single-serve meals, our largest frozen category on slide 13. Conagra represents the majority of volume in the \$6.4 billion category, an outstanding achievement in today's dynamic and competitive environment. Our investments have enabled us to drive steady share improvement in this category, and in the second quarter, we increased our volume share position by three percentage points versus the prior quarter.

Moving to our snacking domain on slide 14. Our snacking portfolio continues to perform well, although rising cocoa prices combined with delayed winter weather in many parts of the country contributed to the Swiss Miss decline. When you exclude Swiss Miss, snacks volume increased 0.6% for the quarter.

As you've heard us say before, while products like Swiss Miss may experience short-term impacts due to seasonality and weather, these tend to recover as winter finally arrives and equal out over the year. Further, we continue to benefit from our advantaged portfolio spanning permissible snacking subspaces like seeds, meat snacks, and popcorn, where our brands saw increases in volume sales in the second quarter.

Turning to staples on slide 15. We continued to see encouraging volume trends delivering sequential volume sales improvement during the second quarter. This business provides tremendous utility to consumers and tremendous cash flow to Conagra. And some of that is coming from innovation. For example, we're excited about the continued strong performance of

our chili business, including Wendy's chili, which recently introduced its new “No Bean” variety. This success underscores Conagra's ability to innovate to meet evolving consumer preferences.

While we're happy with our top-line performance through Q2, we do expect two factors to pressure the second half of the year: inflation and FX. On inflation, last quarter we told you we expected it to peak in Q2 and then fall in the second half, driven in part by lower costs on proteins. Our latest forecast projects that relief on protein costs will be delayed until after the end of the fiscal year. But to be clear, we do still expect these costs to fall as animal supply strengthens.

We also expect some deflation on crop-based inputs as fiscal 26 unfolds. Given this updated outlook, we are not locking in commodity prices at the peak. Instead, we'll continue to monitor costs and prioritize the top-line, with the goal of going into next year with continued strong consumer momentum.

Regarding FX, our International segment was impacted in Q2 by a strengthening US dollar, which is expected to persist through the second half of the fiscal year.

Despite our updated inflation and FX outlook for the second half, we're maintaining our commitment to our brand-building investments, recognizing their critical role in driving top-line momentum, and strengthening consumer loyalty over the long-term.

We will implement limited new inflation-justified pricing actions in a couple of areas, which we expect will help offset some of the rising cocoa and sugar prices. At the same time, we remain disciplined in our efforts to maximize cash flow, prioritize debt reduction, and actively reshape our portfolio to position the business for sustainable success.

Taking into consideration the headwinds we anticipate in the second half, as well as the dynamic consumer environment, we are updating our guidance for fiscal 25. We now expect to come in near the midpoint of our organic net sales range of down 1.5% to flat. Adjusted operating margin is expected to be approximately 14.8%, and adjusted EPS is expected to be in the range of \$2.45 to \$2.50.

With that, I'll pass the call over to Dave to cover the financials in more detail.

David Marberger

Thanks, Sean, and good morning, everyone. Slide 20 shows our financial results for key metrics in the quarter. As Sean mentioned, Conagra returned to volume and organic net sales growth in Q2, driven by volume growth in our domestic retail business.

Organic net sales were \$3.2 billion in the quarter, up 30 basis points over prior year. Adjusted gross margin of 26.4% and adjusted operating margin of 15.3% were down 52 and 57 basis points, respectively, over the prior year, but adjusted operating margin was up 110 basis points in Q2 versus Q1. Adjusted earnings per share were \$0.70, down \$0.01 from Q2 a year ago.

Slide 21 shows the composition of net sales by segment. Total Conagra organic net sales increased 30 basis points over the previous year, with volumes up 40 basis points and price/mix down 10 basis points. In Grocery and Snacks, we delivered net sales of \$1.3 billion, representing 1.2% organic growth versus last year's second quarter, driven by increased volumes and favorable price/mix.

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Our Refrigerated and Frozen segment also delivered \$1.3 billion in net sales, flat to prior year. Increased volumes were offset by negative price/mix, primarily due to our continued strategic trade investments.

In our International segment, organic net sales declined 0.7% versus the prior year, driven by volume declines of 2.4%, partially offset by a 1.7% increase in price/mix.

Organic net sales in our Foodservice business declined 1% over prior year, as volume declines of 3.9% were partially offset by favorable price/mix of 2.9%. While Q2 volume trends improved significantly from the first quarter, we still saw some ongoing softness in restaurant traffic, as we discussed last quarter.

Slide 22 shows our second quarter net sales bridge. Our 40 basis point volume improvement was partially offset by 10 basis points of negative price/mix. We also had a 30 basis point foreign exchange headwind, primarily due to the strength of the US dollar relative to the Mexican peso, and a 40 basis point headwind from M&A activity.

As expected, the impact of reduced sales from our ATFL joint venture, which was sold in Q1 of fiscal 25, exceeded the additional net sales from our first quarter acquisition of FATTY Smoked Meats.

The components of our Q2 adjusted operating margin bridge are shown on slide 23. Adjusted operating margin declined 60 basis points over the previous year to 15.3%. We delivered a 2.4% margin increase from supply chain productivity, which was an acceleration from Q1. This productivity helped to partially offset the unfavorable price/mix from our continued trade investments, as well as the 2.6% margin impact from unfavorable cost of goods sold inflation, which came in at 3.8%. We saw 10 basis points of favorability from lower advertising and promotion expenses, which offset a slight increase in adjusted SG&A.

Slide 24 details our adjusted operating profit and adjusted operating margin performance by segment for Q2. Grocery and Snacks adjusted operating margin improved by 60 basis points, which included a \$6 million benefit from insurance proceeds related to our previously disclosed canned meat recall in fiscal 23.

Second quarter Refrigerated and Frozen adjusted operating margin improved 20 basis points from the first quarter but declined 179 basis points compared to the second quarter last year, driven largely by our continued strategic trade investments and unfavorable impacts of higher cost of goods sold inflation and absorption.

International adjusted operating margins improved 167 basis points, partially driven by the benefit of divesting the lower margin ATFL business.

Finally, Foodservice adjusted operating margin improved 24 basis points versus Q2 a year ago.

The adjusted EPS bridge for Q2 fiscal 25 is shown on slide 25. Adjusted EPS was \$0.70 in the quarter compared to \$0.71 a year ago due to a decline in adjusted operating profit, unfavorable FX rates, and lower equity earnings from Ardent Mills. This was partially offset by favorable pension income, interest expense, and adjusted taxes, which together contributed \$0.03 of EPS in the quarter.

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Key balance sheet and cash flow metrics are shown on slide 26. Conagra generated \$754 million in net cash flows from operating activities in the first half of fiscal 25. This is down from the prior year due primarily to lower operating profit and wrapping on the special dividend payment in the prior year from our Ardent Mills joint venture.

For the first half of fiscal 25, capital expenditures of \$215 million were flat to the prior year, and dividends paid were \$335 million. We did not repurchase additional shares in the second quarter and had no new M&A activity in the quarter. Net leverage at the end of the quarter was 3.54x, on track with our expectations.

Slide 27 illustrates the continued strong performance of our free cash flow. In the first half of fiscal 25, our free cash flow conversion was 91%. As a reminder, given the seasonal nature of our business and working capital needs, we typically have stronger free cash flow in the second half of the year compared to the first half. We now expect our full year free cash flow conversion to be greater than 100%.

Our progress has allowed us to repay over \$600 million of debt in the last 12 months as we move towards our long-term net leverage goal of 3.0x, which we still expect to achieve by the end of fiscal 26.

Slide 28 updates our fiscal 25 guidance numbers and explains the key drivers behind them. We now expect our full year organic net sales growth to be near the midpoint of our guidance range of -1.5% to flat growth versus fiscal 24. As mentioned, we are taking limited pricing actions late in the third quarter to offset some inflation in cocoa and sugar, and we continue to expect our second half volumes and organic net sales to improve versus the first half.

We expect brand investments to continue, with price/mix being a larger headwind in Q3 due to investment timing, which may make our overall organic sales progress in the second half non-linear.

We are updating our adjusted operating margin to approximately 14.8%, as we now expect inflation to be closer to 4% versus our original guidance of approximately 3%. Our updated forecast of animal protein and egg inflation is not moderating in the second half as we originally projected in our guidance. We now expect this moderation to move into our fiscal 26.

This higher inflation estimate will impact our second half adjusted gross margin. We now expect full year fiscal 25 gross margin to contract roughly 90 basis points versus year ago.

Finally, as Sean mentioned, we are now expecting our adjusted EPS in the range of \$2.45 to \$2.50 due to the factors I just mentioned impacting our adjusted operating margin, along with \$0.04 of estimated EPS headwind from unfavorable foreign exchange rates, given the forecasted continued strength of the US dollar.

Slide 29 details our other assumptions for the fiscal year. As I mentioned, we now expect our free cash flow conversion to be greater than 100%. Additionally, we now expect to end the year with a net leverage ratio of approximately 3.4x, up from our prior estimate of approximately 3.2x.

Importantly, we remain committed to repaying debt, and this increase in estimated leverage is fully attributed to our updated expectations for adjusted earnings, not our debt repayment plans, which are on track. We also now expect our adjusted tax rate to be approximately 23%, down from 23.5%, based on favorability year-to-date. Our expectations for capital expenditures, the

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contribution from our joint venture, Ardent Mills, interest expense, and pension income all remain unchanged.

That concludes our prepared remarks for today's call. Thank you for joining us today.

On a personal note: Melissa Napier will be transitioning to a different position in Conagra, the CFO of our Grocery and Snacks segment. I want to thank Melissa for her leadership as Head of Investor Relations and wish her the best in her new role.

I want to welcome Matthew Neisius, who will be replacing Melissa. Matthew has worked in various finance roles at Conagra, and will work closely with Bayle Ellis as he transitions into this role.