



## **Conagra Brands**

### **Q3 FY25 Earnings Call**

**April 3<sup>rd</sup>, 2025**

#### **CORPORATE PARTICIPANTS**

**Matthew Neisius** – *Senior Director, Head of Investor Relations*

**Sean Connolly** – *President and Chief Executive Officer*

**David Marberger** – *Executive Vice President and Chief Financial Officer*

#### **PRESENTATION**

##### **Matthew Neisius**

Good morning! Thank you for listening to our prepared remarks for the Conagra Brands third quarter, fiscal 2025 earnings. At 9:30 eastern 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, and Dave Marberger, our CFO.

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 presentation materials for GAAP to non-GAAP reconciliations and information on our comparability items, both of which can be found in the Investor Relations section of our website.

I'll now turn the call over to Sean.

##### **Sean Connolly**

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

Our third quarter performance was consistent with the expectations we articulated in February during CAGNY, with strong consumption trends and share performance reflecting the continued strength and resilience of our brands. Shipments lagged behind consumption during the third quarter, in part due to the discrete supply constraints we announced in mid-February.

As a reminder, we experienced supply challenges in two product platforms – frozen meals containing chicken and frozen vegetables – which prevented us from fully servicing demand during the quarter. Through continued investments in infrastructure and strategic partnerships, we're making solid progress to restore inventory and improve customer service levels across these key product platforms.

Our fiscal 2025 guidance remains unchanged as we continue to closely monitor the dynamic external environment, including tariffs and trade impacts, regulatory and policy changes, inflation, and shifts in consumer sentiment. Amid this evolving landscape, we remain focused on strong execution and operating with agility to drive sustainable success.

Today we'll detail the trends in our business, starting with our strong consumption trajectory on slide five.

As we previously communicated, Conagra has been strategically investing behind our brands to drive volume recovery following the challenged consumer environment brought on by the inflation super cycle. These charts illustrate the effectiveness of our investments, as we've achieved six consecutive quarters of volume improvement. Our consumption returned to growth in Q2 and we built upon that in the third quarter, with domestic retail consumption volume increasing 1.1% compared to the prior year. Importantly, our dollar sales performance is following a similar trend, continually rising to be nearly flat within our domestic retail segments during the third quarter.

I'd like to spend a minute discussing the shipments versus consumption dynamic shown on slide six.

As you can see, our shipments and consumption are typically closely aligned. In some periods shipments are higher while in others consumption takes the lead, but it's rare to see a delta that exceeds one point.

The third quarter was unique, as consumption outpaced shipments by three points. This anomaly was largely due to the discrete supply constraints we already discussed. Consumer demand, and resulting consumption, remained strong, but we were unable to sufficiently service that demand, which disproportionately impacted our shipments.

There were other factors that further contributed to this gap, including a notable increase in Swiss Miss consumption during the third quarter given a delay in winter weather that shifted the demand cycle for that brand to later in the year than usual.

If you take a step back, the timing of shipments can vary for a variety of reasons, but they ultimately align with consumption over time. That's why we believe consumption is the best indicator for underlying consumer demand and brand strength. And it's clear that the trajectory of our brands remains strong.

That's true in absolute terms and when compared to the broader industry. As you can see on slide seven, our share performance has been exceptional since we made the decision in the middle of fiscal 24 to strategically enhance investments behind our brands. As of the third quarter of fiscal 25, 60% of Conagra's portfolio either held or gained volume share, a number that's particularly impressive considering the discrete supply challenges we faced during the quarter.

And our share performance continues to outpace our near-in peer set, as shown here on slide eight. We're outperforming our closest peer by eight percentage points. This strong share performance speaks to the continued strength of our brands and the value our consumers place on our products. It's a testament to the hard work we've put into executing with agility in a rapidly changing environment.

Turning to slide nine, you can see that the broader industry merchandising landscape continued to be rational as promotional activity was largely similar to the pre-COVID environment. As I've mentioned in prior quarters, our volume progress and strong share gains have been driven by our disciplined approach to brand building, not by heavy discounting. And that remains true today.

We continue to promote less than pre-COVID levels, and when compared to the broader industry, our share of volume sales on promotion have remained below our closest peers both today and in the pre-pandemic period. And when we do promote, the discounts are rational and remain lower than both pre-COVID levels as well as our near-in peers.

Put simply, Conagra remains less reliant on promotions to drive volume, and we maintain a disciplined approach to prioritize the long-term health of our brands, ensuring sustainable success and value for our shareholders.

Now, turning to our consumer domains, starting with frozen on slide 10. Despite the previously mentioned supply chain challenges, Conagra's frozen consumption remains strong. Our Q3 retail volume sales have grown for three consecutive quarters. Importantly, the frozen department continues to outpace the total edible category and Conagra is driving category growth.

Taking a closer look at our largest frozen category, single-serve meals, on slide 11. Conagra represents the majority of volume in the \$6.4 billion single-serve meals category, an outstanding achievement in today's dynamic and competitive environment. Our enhanced investments have enabled us to drive steady share improvement in this category, with our third quarter volume share position up 0.6% over the year ago period.

Moving to our snacking domain on slide 12. Our snacking portfolio continues to perform well, reporting strong volume sales growth of 3.8% at the end of the fiscal third quarter. In addition to Swiss Miss, which I mentioned earlier, we continue to benefit from our advantaged position spanning permissible snacking subspaces like seeds and popcorn, where our brands saw increases in volume sales in the third quarter.

Turning to staples on slide 13. We continued to see encouraging trends delivering sequential volume sales improvement in staples during the third quarter. Q3 volume sales were driven by a strong holiday season for Reddi-Wip as well as our table spreads and tomato platforms.

Turning now to slide 14, as I want to provide an update on the progress we've made in addressing the chicken and vegetable supply challenges I mentioned earlier that have impacted both sales and profit, most notably in our third quarter.

We're actively investing to add capacity, restore service levels and rebuild inventory, which will help offset some of these impacts in the coming quarters. For instance, we've secured additional vegetable volume for brands like Birds Eye, which is helping us replenish inventory ahead of the Easter season. As we work through this, shipments in Q4 will benefit from this replenishment, although they will come at a higher cost.

We're also making solid progress on the planned modernization of our chicken plant, with completion expected in August. While we are incurring elevated transitory costs as we work through these issues, these investments are critical to getting our products into consumers' hands.

As I noted earlier, we are closely monitoring the dynamic external environment we're operating in, including tariffs and trade impacts, regulatory and policy changes, inflationary pressures, and shifts in consumer confidence and spending.

To help navigate these issues, management is remaining agile and proactive as we continue to mine our productivity programs to ensure we are capturing all efficiency opportunities, including optimizing our manufacturing footprint. We also continue to look at portfolio reshaping for opportunities to drive long-term growth.

And of course, we remain focused on developing products that offer consumers great value, taste, and function.

Conagra's broad and varied portfolio offers buyers restaurant-quality experiences at home at a much greater value. Our frozen products are perfect for consumers looking to save money and enjoy a delicious meal.

In addition, our focus on modern health attributes matches up well with consumers' increasing interest in eating healthier without sacrificing taste.

As the external environment continues to evolve, our fiscal 25 guidance remains unchanged from what we announced in February.

As a reminder, our fiscal 25 guidance reflects:

- Organic net sales of approximately minus 2.0%;
- Adjusted operating margin of approximately 14.4%; and
- Adjusted EPS of approximately \$2.35

Despite ongoing volatility, we remain focused on strong execution and operating with agility to deliver long-term value for our shareholders.

Thank you for your time and continued support. I'll now turn it over to Dave to walk through the financials in more detail.

**David Marberger**

Thanks, Sean, and good morning, everyone.

Slide 19 shows our financial results for key metrics in the quarter. Conagra's organic net sales were \$2.9 billion in Q3, a 5.2% decline versus the prior year. Adjusted gross margin of 24.8% and adjusted operating margin of 12.7% were both down over the prior year, and adjusted earnings per share were \$0.51, down \$0.18 versus year ago.

Slide 20 shows our third quarter net sales bridge. Total Conagra organic net sales decreased 5.2% over the previous year, with volumes down 3.1% and price/mix down 2.1%. As we've discussed, organic net sales for the quarter were negatively impacted by supply constraints in our frozen meals with chicken and frozen vegetables platforms. In addition, we had a 70-basis point headwind from a change in estimate related to our trade expense accrual.

Foreign exchange was 70-basis points unfavorable due to the strength of the US Dollar relative to the Canadian Dollar and Mexican Peso. And as expected, 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.

Slide 21 shows the composition of net sales by segment.

In Grocery & Snacks, we delivered net sales of \$1.2 billion, representing a 3.9% decline in organic growth versus the prior year, driven by lower volumes and unfavorable price/mix. Included in price/mix is approximately 100-basis points of unfavorable product mix and 80-basis points from the change in the trade estimate.

Our Refrigerated & Frozen segment delivered \$1.1 billion in net sales, down 7.2% versus the prior year. Results for the segment were negatively impacted by the previously mentioned supply constraints as well as targeted increases in retailer investments and approximately 80-basis points from the change in the trade estimate.

In our International segment, organic net sales declined 1.2% versus the prior year. Volume declines were partially offset by an increase in price/mix following selective price increases across each of our international markets.

Organic net sales in our Foodservice business declined 6.3% over prior year as volume declines were partially offset by favorable price/mix. Our Foodservice business saw ongoing softness in commercial traffic during the quarter, partially impacted by colder weather in early calendar 25.

The components of our Q3 adjusted operating margin bridge are shown on slide 22. Adjusted operating margin declined 369-basis points over the previous year to 12.7%. Price/mix was a 150-basis point headwind, reflecting an increase in strategic investments in our domestic retail business. The change in the trade expense estimate was a headwind of approximately 50-basis points. Total cost of goods sold inflation increased to 4.0% in Q3, largely in-line with our expectations.

We remain pleased with the pace of savings generated by our productivity programs. However, the net benefit in Q3 was impacted by transitory costs related to our frozen supply constraints. We experienced short-term declines in operating leverage as lower production volumes negatively impacted margins by approximately 80-basis points. We also lapped one-time benefits recognized in last year's profit, which negatively impacted Q3 operating margin versus the prior year by roughly 40-basis points.

Adjusted SG&A, which includes advertising & promotion expense, was 10-basis points favorable to year ago as favorable SG&A from lower incentive compensation was partially offset by a slight increase in A&P investments. And lastly, foreign exchange was a headwind of approximately 20-basis points.

Slide 23 details our adjusted operating profit and adjusted operating margin performance by segment. Our segment operating profit and margin results were impacted by the same drivers as I just discussed, namely an increase in strategic investments, elevated inflation, unfavorable operating leverage, and transitory supply chain costs, more than offsetting our cost saving initiatives.

The adjusted EPS bridge is shown on slide 24.

Adjusted EPS was \$0.51 in the quarter compared to \$0.69 a year ago due to reduced adjusted operating profit and unfavorable FX rates. This was partially offset by favorable pension income, interest expense, adjusted taxes, and adjusted equity earnings from our Ardent Mills joint venture, which together contributed \$0.04 of EPS growth in the quarter.

Cash flow metrics are shown on slide 25. Conagra generated \$1.3 billion in net cash flows from operating activities in the first three quarters 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, but it remains historically strong in terms of Q3 year-to-date performance.

Capital expenditures of \$304 million were largely in-line to the prior year, and dividends paid were \$502 million. We did not repurchase additional shares in the third quarter and had no new M&A activity in the quarter.

Slide 26 illustrates the continued strong performance of our free cash flow. In the first three quarters of fiscal 25, our free cash flow conversion was 125%, in-line with our strong performance in the prior year-to-date period. We remain extremely pleased with our ability to generate cash from the business, and our progress has allowed us to reduce net debt by approximately \$500 million in the last twelve months. Net leverage at the end of the quarter was 3.59x. We remain committed to our long-term leverage target of 3.0x.

As Sean mentioned, our fiscal 25 guidance remains unchanged. We continue to expect our full year organic net sales growth to be approximately minus 2% versus fiscal 24; adjusted operating margin to be approximately 14.4%; and adjusted EPS of approximately \$2.35.

Slide 28 provides a few key assumptions for the remainder of the fiscal year. In the fourth quarter, we expect total company volume to improve versus the third quarter, driven by the continued strength in consumption we've seen in our brands. In addition, we expect to see some benefit to shipments as we restock retailer inventories in supply constrained areas.

Next, we continue to expect full year inflation of approximately 4%. There are pockets where inflation has remained elevated, and in late Q4, we expect to offset some elevated protein inflation with targeted pricing actions in our Hebrew National business, with the financial impact largely affecting fiscal 26.

As Sean discussed, we're investing to expand capacity in our frozen vegetables and frozen meals with chicken product lines to meet elevated demand, which is critical to restoring customer service levels and rebuilding inventories. We estimate that these investments will result in transitory costs throughout the first quarter of fiscal 26.

We also continue to closely monitor tariff policy changes and implications to our business. We do expect to be impacted by the previously announced U.S. tariffs on tin mill steel and aluminum, and to a much more modest extent Chinese imports. We have started to see charges come through, but we expect only a limited impact on our fourth quarter expense from these tariffs as we work through inventory on hand. We will look to offset any cost increases through a combination of alternative sourcing methods, cost savings initiatives, and targeted price adjustments.

Our guidance does not include impacts from tariffs other than those just mentioned. We expect to provide additional information on this topic when we provide guidance for our fiscal 26 in July, which as a reminder, will include a 53<sup>rd</sup> week.

And finally, we expect full-year capex to be approximately \$410 million to support the continued modernization of our supply chain.

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