



Conagra Brands
Q4 FY24 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. Thank you for listening to our prepared remarks on Conagra Brand's fourth quarter and fiscal year 2024 earnings. At 9:30 AM 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 these 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 our earnings release and slides for the GAAP to non-GAAP reconciliations and information on our comparability items, which can be found in the Investor Relations section of our website. And I'll now turn the call over to Sean.

Sean Connolly

Thanks Melissa. Good morning, everyone. Thank you for joining our fourth quarter fiscal 24 earnings call. I'll begin today's call by sharing some perspective on our fourth quarter and fiscal

24 performance, particularly in the context of our broader environment. Then, before I turn it over to Dave, I'll discuss how we're thinking about fiscal 25.

Let's get started with the key points we want to convey on slide five. Overall, we demonstrated solid progress throughout fiscal 24 amidst a challenging consumer environment. In Q4, we continued to see positive impact from our investments to maximize consumer engagement with our brands. This again resulted in sequential volume improvement in our domestic retail business.

We also saw strengthened share, particularly in frozen and snacks where our volume progress has been most meaningful. Even with these significant investments, we reported full year adjusted gross and operating margin expansion supported by productivity improvements across our supply chain. Further, our strong free cash flow enabled us to continue to reduce our net leverage ratio and strengthen our balance sheet consistent with our goals.

Our progress in 24 reinforces the strength and resiliency of our business. We expect fiscal 25 to be a continued transition toward a normalized operating environment. That means a gradual waning of the challenging industry trends seen throughout fiscal 24, as consumers adapt and establish new reference prices. In light of this, we've prudently tempered our fiscal 25 outlook. We'll provide more detail on that shortly.

Let's turn to slide six, which provides a snapshot of our fourth quarter and full year 2024 results. Heading into fiscal 24, we knew that the consumer environment was challenged and it continued that way throughout the year. Against that backdrop, we remained agile, modified our plans, and made steady progress as the year unfolded. And while our ramped up investments pressured dollar sales, they delivered the desired impact on volumes, as I will unpack for you in a moment.

We also reported adjusted gross margin expansion of 58 basis points and adjusted operating margin expansion of 34 basis points over the prior year period, a two year increase of 284 and 159 basis points, respectively. Although we saw one year declines in organic net sales and adjusted EPS, our two year organic net sales and adjusted EPS CAGRs remained solid at 2.2% and 6.4%, respectively.

Before I dive deeper into the fiscal 24 results, I want to share some perspective about our progress over the last five years, shown here on slide seven. Our business today is substantially larger and more profitable than it was pre-COVID, and we've reported strong performance across each of our KPIs despite volatile market conditions. This reflects our efforts to deploy our playbook, which is focused on investing in our brands to sustain our share of mind and share of wallet with the consumer and drive profitable growth.

As a result, we delivered an overall improvement in net sales, operating margins, and adjusted EPS. And our focus on maximizing free cash flow enabled us to reduce our net leverage from more than 5.5x to less than 3.4x, all while continuing to invest to make our brands stronger and far more resilient than they've ever been.

That resiliency has been demonstrated more recently in the steady volume recovery we've delivered in our domestic retail business, illustrated here on slide eight. We still have some work to do, but you can see how volumes recovered significantly in the second half of the year. We anticipate the consumer environment will remain challenging in fiscal 25, but our proven ability

to navigate today's difficult operating environment reinforces our confidence in continued volume progress from here.

Critically, we have seen strong improvement in volume consumption trends in our key domains of snacks and frozen. As you can see, snacks returned to growth in Q4 with frozen knocking on the door.

The resiliency of our portfolio is particularly evident when compared to the broader market. Slide ten shows our strong share gains throughout fiscal 24. As you can see, in Q4, approximately 65% of our portfolio held or gained volume share amid a slow environment, marking the fourth consecutive quarter of share gains.

It's worth noting that our share performance is even stronger within our highly strategic frozen and snacks domains, where an impressive 80% of our brands have held or gained volume share. And as you can see here on slide 11, our performance is highly competitive versus our near-in peers.

Turning to slide 12 and looking at the results from our single largest category, frozen single-serve meals. Our investments enabled us to drive steady improvement throughout fiscal 24, and in the fourth quarter, we returned to volume growth, significantly outpacing the category. In fact, that growth behind our enhanced investments across frozen single-serve meals has enabled us to deliver record share levels in the category shown here on slide 13.

Encouragingly, volume trends on Birds Eye frozen vegetables are also improving. Slide 14 shows Birds Eye's volume sales have improved faster than the total frozen vegetable category on a quarterly basis. This is particularly evident in the fourth quarter, as our volume sales performance significantly outpaced that of the total category.

To wrap up on frozen, I want to reiterate the steady, solid growth of this category over the past 40 years. I know I've shared this slide in the past, but it bears repeating as it's one of the many reasons we remain bullish on frozen. Frozen's 4% CAGR is in the top tier of foods growing in in-home consumption over this extended time frame.

Now turning to our snacks business on slide 16. We saw strong momentum in the fourth quarter while trends in snacking were down across several of our competitors. This is largely due to our on trend snacking brands that span advantaged snacking subspaces like meat snacks, popcorn, and seeds. We've seen strong volume sales performance across each of these subcategories given the rise of protein and fiber-centric snacking, as brands like Duke's, David, and Angie's BOOMCHICKAPOP have enabled us to answer consumer demands for healthier on-trend snack options.

Moving on to our staples domain on slide 17. While we saw an overall improvement in volume sales in the second half, we were wrapping supply chain disruptions in chili and canned meat, resulting in a 17.5% volume increase in Q4. We also saw brand building investments drive volume growth in certain previously challenged refrigerated products. As a result, as we enter fiscal 25, we'll make further prudent investments to stimulate broader volume recovery in staples.

Despite the challenging macro environment the past year, our innovation continued to resonate with consumers in a big way. Slide 18 highlights some of our innovation that we launched during

fiscal 24, as well as some items that will hit store shelves in fiscal 25. The expansion of our Birds Eye brands to include delicious, culinary inspired products that appeal to a younger, more affluent household has seen significant success in the market.

Consumers have also embraced our Banquet Mega chicken filets and Healthy Choice modern dinners, which cater to a greater variety of eating occasions. And finally, Wendy's Chili, delivering the flavors that consumers know and love from the QSR industry, became available at grocery stores nationwide, and it continues to perform very well for us.

As I mentioned earlier, we delivered full year adjusted gross and operating margin expansion, thanks in large part to our successful cost savings initiatives and strong supply chain productivity. These strong productivity results helped fuel the significant brand building investments I've discussed here this morning. At the end of fiscal 24, savings as a percentage of cost of goods sold reached our long-term target of approximately 4%, and service levels improved close to pre-COVID levels at 97%.

We also delivered substantial improvements in free cash flow and a five day improvement in our cash conversion cycle relative to the prior year period. As we look ahead to fiscal 25, we remain on track to deliver \$1 billion of cost savings by the end of the year.

Now looking at the year ahead, we anticipate the consumer will remain challenged in fiscal 25, but that we will gradually transition toward a more normalized operating environment as consumers adapt. Here are our key assumptions for fiscal 25.

We expect our brands will continue to benefit from our ongoing strategic investments to maximize consumer engagement and drive further volume improvements. We'll continue to drive our cost savings and productivity initiatives and expect to achieve 4% cost savings as a percentage of cost of goods sold. This will help offset projected inflation and further enhance our competitive position.

For fiscal 25, we anticipate adjusted gross margins will remain stable despite continuing our brand building investments. Further, while Ardent Mills is expected to deliver another strong year, it will not be at the level of a particularly strong fiscal 24. Turning now to our financial guidance for fiscal 25 on slide 23. Again, our outlook anticipates both continued investment in our brands and a gradual waning of the challenging macro trends experienced by the industry in fiscal 24 as consumers continue to establish new reference prices. We view this stance as prudent.

Accordingly, we are guiding to an organic net sales range of -1.5% to flat compared to fiscal 24; adjusted operating margin of approximately 15.6% to 15.8%; and adjusted EPS of approximately \$2.60 to \$2.65. Our steady progress in 2024, despite a difficult consumer environment, demonstrates the underlying resiliency of our business, and this reinforces our confidence to drive further volume improvement and margin expansion in fiscal 25.

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

David Marberger

Thanks, Sean, and good morning, everyone. As Sean discussed, we made solid progress throughout the fiscal year in a challenging consumer environment. I'll first highlight the full year results shown on slide 25, before discussing the fourth quarter.

Fiscal 24 organic net sales of \$12 billion were down 2.1%, largely driven by the industry wide elongated volume recovery in our domestic retail business. Adjusted gross profit and adjusted operating profit both improved 0.3% over prior year, despite lower sales, as strong supply chain productivity helped offset cost of goods sold inflation, absorption impacts from our lower volumes, and the brand investments we made during the year.

Advertising and promotion expense as a percentage of net sales was consistent with last year at 2.4%. Adjusted SG&A, which excludes A&P, was approximately flat to the prior year as general cost increases were mostly offset by lower incentive compensation expense.

We delivered an adjusted operating margin of 16% and adjusted EPS of \$2.67 for the fiscal year. And as Sean mentioned, we finished the year at a net leverage ratio of 3.37x and improved our free cash flow by approximately \$1 billion over fiscal 23.

I'll now discuss our fourth quarter results, starting with our net sales bridge on slide 26. Organic net sales declined 2.4%, driven by a volume decline of 1.8% and a 0.6% price/mix reduction, reflecting the increased brand building investments. We also saw a small benefit from favorable foreign exchange.

Slide 27 outlines Q4 top line performance for each segment. Volume declines in our Grocery and Snacks and Foodservice segments were partially offset by volume increases in our Refrigerated and Frozen and International segments for the quarter. As Sean discussed, we made good progress in our snacks business as consumption trends were positive in the quarter, helping us gain share.

In grocery, we've seen positive results in select areas where we've increased investment and innovation, and we continue to evaluate prudent investment opportunities in our grocery business to improve volumes moving forward. We are pleased with the volume inflection we delivered in Refrigerated and Frozen in Q4, demonstrating the consumer impact of our trade investments.

Declines in Foodservice volume were driven by a slowdown in QSR traffic, along with actions we've been taking to eliminate low profit business, which is reflected in the strong operating margin performance in Foodservice that you will see shortly.

Our International business delivered another strong sales quarter, with volume and price/mix both up year over year, driven by strong results from our Mexico and Global Export businesses. Overall, we are seeing some green shoots from our frozen, snacking and International volumes in Q4 and remain confident that our continued innovation, brand and trade merchandising investments will help this continue in fiscal 25.

The components of our Q4 adjusted operating margin bridge are shown on slide 28. Adjusted gross margin improved 62 basis points over prior year to 27.6%. Productivity improvements, which approximated 4% of cost of goods sold in the quarter, more than offset net inflation, which

approximated 2.7% of cost of goods sold, which helped fund trade merchandising investments in our brands. Adjusted operating margin improved 22 basis points over prior year to 14.8%, driven by the adjusted gross margin improvement I just discussed, partially offset by increased A&P and adjusted SG&A.

Slide 29 details our adjusted operating profit and adjusted operating margin performance by segment for Q4. Grocery and Snacks adjusted operating margin improved 220 basis points, aided by pricing taken earlier in the fiscal year and by a \$7 million net benefit related to insurance proceeds for prior year lost sales from our canned meats recall.

Refrigerated and Frozen adjusted operating margin declined 172 basis points from increased trade merchandising investments. International adjusted operating margins declined 283 basis points, mainly from transitory supply chain issues impacting our Canadian business, while Foodservice adjusted operating margins improved 427 basis points, a result of discontinuing less profitable business.

As a reminder, results from our annual goodwill intangible impairment testing also negatively impacted reported profits, primarily in our Refrigerated and Frozen and Grocery and Snacks segments. The primary drivers of the impairment charges were a combination of higher interest rates, revised net sales projections, and some market multiple contraction seen throughout the industry.

The adjusted EPS bridges for the fourth quarter and full year are shown on slide 30. Fourth quarter adjusted EPS was \$0.61, a penny less than prior year. Taxes were favorable in the quarter by \$0.02, while a reduction in equity earnings from Ardent Mills was a \$0.03 headwind. At the bottom half of the slide, you can see that our year over year EPS declined by \$0.10, largely driven by \$0.07 of headwinds from additional interest expense and a reduction in pension income versus the prior year, as well as a \$0.05 headwind from Ardent Mills as that business moves towards a more normalized level of operations.

Let me take a minute to talk about our 44% joint venture ownership in Ardent Mills. Ardent Mills is a premier flour milling and ingredient company. The primary business of Ardent is in the milling and selling of flour products at a margin. Most of the remaining business is commodity revenue that is generated by managing volatility in grain markets through trading operations. The decrease in Ardent's fiscal 24 results reflects slightly lower volume trends in the milling industry and a move towards a more normalized commodity revenue environment, which hit record levels in fiscal 23.

Slide 31 reiterates the progress we've made to strengthen our balance sheet and improve cash flow. In Q4, we repaid a \$1 billion senior note that matured in May 2024 through a combination of cash on hand, commercial paper borrowings and the issuance of a \$300 million one year unsecured term loan. For the fiscal year, our ending net debt was \$8.4 billion, a reduction of \$777 million, or 8.5% from fiscal 23.

We delivered strong year over year improvement in net cash flow from operating activities, primarily through reduced inventory balances and improved cash returns from Ardent Mills, generating \$2 billion in net cash flow from operations and free cash flow of \$1.6 billion, an improvement of approximately \$1 billion over prior year. Capital expenditures increased 7% over prior year to \$388 million. And we paid \$659 million in dividends in fiscal 24.

I'm very proud of these results, which reflect a focused commitment by the entire Conagra organization on cash flow. Reducing debt and lowering our net leverage ratio have been priorities for us.

Slide 32 shows the consistent progress we've made, finishing fiscal 24 at a net leverage ratio of 3.37x, well on our way to achieving our targeted 3.0x leverage ratio by the end of fiscal 26.

Sean already previewed the guidance metrics shown here on slide 33. For fiscal 25, we are expecting organic net sales growth to be flat to down 1.5% versus fiscal 24; adjusted operating margin between 15.6% and 15.8%; and adjusted EPS between \$2.60 and \$2.65.

The considerations underlying our fiscal 25 guidance are shown on slide 34. As Sean discussed earlier, we're encouraged by the steady volume improvement and market share gains we've seen from the investments put in place during fiscal 24, and we expect to continue these investments in fiscal 25.

We are projecting approximately 3% net inflation in fiscal 25, capital expenditures of \$500 million, and full year gross productivity savings of approximately \$350 million, or 4% of cost of goods sold.

We expect operating margin of 15.6% to 15.8%, which is down from 16% in fiscal 24. This decline is driven by higher expected SG&A in fiscal 25, mostly from higher incentive compensation expense, which was down in fiscal 24.

We expect to generate a free cash flow conversion of approximately 90% and further reduce our net leverage ratio to approximately 3.2x by the end of fiscal 25. We expect to resume a minimal amount of share repurchases in fiscal 25 to offset dilution from our share-based equity incentive plans.

In terms of how we expect the year to progress, we expect Q1 to deliver the lowest volume, top line, and adjusted gross margin of any quarter. While we still receive the benefit from pricing put in place in fiscal 24, Q1 will be impacted by continued brand building investments and wrapping on our highest top line quarter in the prior year.

We are planning for sequential volume improvement each quarter after Q1 to achieve our full year sales guidance. Also, SG&A in the first quarter will face a headwind from wrapping the Q1 fiscal 24 adjustment to reduce incentive compensation expense.

This morning, we announced that our board of directors authorized the continuation of the company's annualized dividend rate of \$1.40 per share, a 53% dividend payout ratio based on the midpoint of our fiscal 25 EPS guidance and in line with our targeted payout ratio.

That concludes our prepared remarks for today's call. Thank you for your interest in Conagra Brands.