Kellogg Company Portfolio Transformation

Company Participants

- Amit Banati, Senior Vice President and Chief Financial Officer
- John Renwick, Investor Relations
- Steven Cahillane, Chairman and Chief Executive Officer

Other Participants

- Alexia Howard, Analyst
- Andrew Lazar, Analyst
- Bryan Spillane, Analyst
- Cody Ross, Analyst
- David Palmer, Analyst
- Jason English, Analyst
- Jonathan Feeney, Analyst
- Ken Goldman, Analyst
- Ken Zaslow, Analyst
- Pamela Kaufman, Analyst
- Rob Dickerson, Analyst
- Robert Moskow, Analyst
- Steve Powers, Analyst

Presentation

Operator

Good morning and welcome to the Kellogg Company's conference call to announce its latest portfolio transformation. All lines have been placed on mute to prevent any background noise. At this time, I will turn the call over to John Renwick, Vice President, Investor Relations and Corporate Planning for the Kellogg Company. Mr. Renwick, you may begin your conference call.

John Renwick {BIO 19769692 <GO>}

Thank you, operator. Good morning and thank you all for joining us today, especially on such short notice. I'm joined this morning by Steve Cahillane, our Chairman and CEO; and Amit Banati, our Chief Financial Officer.

Before we start, Slide Number 2 shows our forward-looking statements and non-GAAP financial measures disclaimers. As you are aware certain statements made today such as projections for Kellogg Company's future performance 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 slide of this presentation as well as to our public SEC filings.

And now, I'll turn it over to Steve.

Steven Cahillane {BIO 4718688 <GO>}

Thanks, John and good morning everyone. We are very excited to be announcing today the spin off of two of our businesses, an action which will create three stronger independent companies.

Slide number 4 shows that this move is consistent with our Deploy for Balanced Growth strategy, and is the latest in what has been a series of significant actions we've taken in recent years to transform our portfolio. We acquired Pringles in 2012, turned it into a global powerhouse brand and added about $1 billion of net sales to that brand since we acquired it. We made a big bet on Africa, filling in geographic gaps with acquisitions and partnerships. These have given us a strong hold in an emerging market that is poised for exceptional growth for a long time. We made the bold move of exiting direct-store delivery in our US Snacks business, a move that swapped out declining ROI overhead in favor of brand building behind world-class brands like Cheez-It, Pop-Tarts and Rice Krispies Treats. And you've seen the tremendous growth those brands have realized ever since.

We also acquired RXBAR, giving us a strong entry into performance based snacks. And we also divested four businesses, cookies, fruit snacks, pie crusts and ice cream cones that we felt were not core businesses for us. And along the way we've shifted resources into growth businesses notably snacks in emerging markets. The result is a more growth-oriented portfolio that has produced strong growth. The reshaped portfolio is working, but we believe it could work even better, particularly if our US and Canada cereal and plant-based businesses were independent. Hence our announcement to spin-off those two businesses. Our shareowners will own a trio of strong independent companies with iconic brands, attractive economics and improved outlooks.

These are shown on Slide number 5. We'll come back to you later with their new names, but for now, we'll refer to them with generic temporary names. Global Snacking Company with about $11.4 billion in net sales will be a leading company in global snacking, international cereal and noodles and North America frozen breakfast with iconic world-class brands and strong underlying growth momentum and profitability. North America Cereal Company with about $2.4 billion in annual net sales will be a leading cereal company in the US, Canada and the Caribbean with a portfolio of iconic world-class brands and compelling opportunities for investment and improved profit growth. And Plant Co., which generates annual net sales of about $340 million is a leading profitable pure play plant-based foods company anchored by the MorningStar Farms brand with significant opportunity to capitalize on strong, long-term category prospects by investing further in North America penetration and future international expansion.

The rationale for this separation is very compelling and it is summarized on Slide number 6. Each of the three companies is from day one a scaled business with strong brands and category shares, a solid supply chain and financial flexibility. As independent companies, all three will be better positioned to do the following; Focus on their distinct strategic priorities with financial targets that best fit their own markets and opportunities, execute with increased agility and operational flexibility enabling more focused allocation of capital and resources in a manner consistent with those strategic priorities, realize improved outlooks for profitable growth and shape distinctive corporate cultures rooted in our strong Kellogg Company values and rewarding career paths for employees of each company.

Let's look more closely at each of these three companies. We'll start with Global Snacking Company, which represents roughly 80% of the current Kellogg Company sales. In effect this includes the remainder of our North America region after spinning-off cereal and plant-based foods. It also includes our existing international regions, which remain almost completely intact. It remains a big scale business with well over $11 billion in annual sales and with a portfolio that will be more profitable and more shape to our growth than it is today.

Slide number 8 shows what the Global Snacking Company portfolio will look like from a category standpoint. Based on 2021 data nearly 60% of its net sales will come from global snacks, participating in growing categories and led by iconic world-class brands including Pringles, Cheez-it, Pop-Tarts, Rice Krispies Treats, Nutri-Grain and RXBAR among others. Over 2020 and 2021, this portion of the business grew net sales organically at a mid-single digit CAGR. Less than a quarter of its net sales will come from cereal in international markets, featuring world-class brands such as Kellogg's, Frosties or Zucaritas, Special K, Tresor or Krave, Coco-Pops and Crunchy Nut among others. Over 2020 and 2021 this portion of the business grew net sales organically at a mid-single digit CAGR as well. By remaining with Global Snacking Company, this international cereal business provide scale, continuity, and growth for the Europe, Latin America and EMEA regions.

The next largest portion of the portfolio represents about 10% of sales, and it's comprised principally of our rapidly growing noodles business in Africa. This business grew net sales organically at a very strong double-digit CAGR during 2020 and 2021. And finally, there is our frozen breakfast business representing less than 10% of sales and led by the world-class Eggo brand. This business grew net sales organically at a low single digit CAGR during 2020 and 2021, even despite capacity constraints.

Slide number 9 shows how this portfolio is geared toward growth geographically as well. Using 2021 data North America will represent less than half of Global Snacking Company's net sales. And its portfolio grew net sales organically at a mid-single digit rate in this region, across 2020 and 2021 led by snacks. And to the right you can see the in-market momentum of the world-class brands in the US, brands that make up about three quarters of Global Snacking Company's North America net sales. More than 20% of Global Snacking Company sales will come from Europe, where over the past two years we have generated an organic net sales CAGR in the mid-single digits, with growth in both snacks and cereal. And about 30% of sales will come from fast growing emerging markets in Latin America and Asia-Pacific, Middle East and Africa or EMEA. Over the same time-period our organic net sales grew at a compound annual rate in the double digits for EMEA and in the high single digits for Latin America. Put it all together and Global Snacking Company grew organic net sales at a high single-digit CAGR during the two-year 2020-2021 period along with expansion in its operating profit margin.

Slide number 10 offer some insight into what to expect from Global Snacking Company. Building on its track-record of sales and profit growth and leveraging its portfolio of world-class brands, strong positions in attractive categories and geographic diversification, this will be a higher growth company than today's Kellogg Company. Net sales growth will be aided by more focused resources and attention to brand building, innovation and international expansion of world-class brands and to building scale in emerging markets. Profit margins are expected to expand over time driven by operating leverage, revenue growth management, productivity and increasing emerging market scale.

From a balance sheet perspective, we are committed to maintaining our investment grade credit rating for Global Snacking Company after the separation giving us good financial flexibility. And we are committed to paying an attractive dividend in line with our peer group. In sum, it will be plain to see that Global Snacking Company is a higher growth, higher margin company with strong financial flexibility.

Now let's discuss North America Cereal Company. The first of the two businesses that we intend to spin-off to shareowners. This business is summarized on Slide number 12. This is a $2.4 billion business operating in the US, Canada and the Caribbean. It's portfolio is comprised of some of the most beloved and iconic brands in the category, such as Kellogg's Frosted Flakes, Froot Loops Mini-Wheats Special K, Raisin Bran, Rice Krispies, Corn Flakes, Kashi, and Bear Naked. It also has a portfolio that stretches across the categories product segments from taste brands to wellness brands to natural brands. It has been successful for over a century as a pioneer innovator and leader in ready-to-eat cereal. This is a business with a strong foundation for future performance and growth.

Slide number 13 shows just the few of the iconic brands in this portfolio. It currently holds a strong number two position in the US with 5 of the top 11 brands in the category. It also holds the number one share in the other major North America Cereal Company markets, Canada and Puerto Rico. You are well aware of the supply disruptions that have pulled down our North America sales and profit recently. Our priority this year has been to restore production and inventory across our SKUs and then to resume our playbook to get back to winning in the marketplace. And we are well on our way with total distribution points and share recovering sequentially. We've already gained back four share points since the beginning of this year. This speaks to the importance of these brands in the store and it demonstrates the strong foundation from which North America Cereal Company can build as an independent company.

Slide number 14 takes a look at what we expect from a standalone North America Cereal Company. While the focus near-term is on this sequential recovery, which will not only improve net sales, but also restore profit margins, the prospects for a stand-alone North America Cereal Company are even more promising. No longer part of a snacks dominated portfolio, North America Cereal Company will be able to focus its resources on strengthening the business through investments in its portfolio, packaging capabilities and productivity. With this enhanced focus North America Cereal Company is expected to generate stable net sales over time, consistent with the category's long-term trend with improving profit margins that will drive profit growth, higher cash flow and increased return on invested capital. In addition to better and more reliable in-market and financial performance, North America Cereal Company will be set up with financial flexibility from a balance sheet perspective and with an attractive dividend.

We'll now turn to Plant Co., the North American plant-based foods business that we intend to spin-off to shareowners, while also looking at other strategic alternatives including a possible sale. As discussed on Slide number 16, this is a $340 million business focused solely on plant-based foods and operating in the United States, Canada and the Caribbean. Founded in the 1970s, the MorningStar Farms brand is a pioneer and leader in this on-trend category with a full portfolio of plant-based offerings across multiple product segments and eating occasions. Kellogg has grown MorningStar Farms steadily since its acquisition over 20 years ago. And the brand has the highest share and household penetration in the frozen veg-vegan components category.

Slide number 17 shows the in-market performance of MorningStar Farms in recent years. This is clearly a world-class brand and it is supported by innovative and proprietary processes and technology and a world-class manufacturing network. And it has tremendous long-term growth potential in a category that benefits from rising consumer interest in plant-based foods, both for nutrition needs and environmental reasons.

Slide number 18 offers some reasons we believe this business will thrive more as a stand-alone company. Plant Co. will be a pure play on a secular trend in favor of plant-based foods. It is anchored by the world-class MorningStar Farms brand with a long heritage of innovation and a broad portfolio. Already very profitable, this business has the opportunity to take a more aggressive stance towards future growth. By spinning-off into its own company, resources that previously may have been diluted by priorities in other Kellogg businesses can now be directed towards these growth opportunities. This may include investing more in brand building to build consumer awareness and increase household penetration, it may include investing more in emerging food technologies, new supply chain capabilities, extended distribution across channels and expansion into international markets. We see this business accelerating its sales and profit growth over time, while an unleveraged balance sheet will give it financial flexibility to pursue investments.

Let me now turn it over to Amit, who will walk you through our next steps.

Amit Banati {BIO 16339861 <GO>}

Thanks, Steve.

On Slide number 20, let me first provide some details about the transaction and the steps required to get there. The proposed spin-offs are intended to result in tax-free distributions of North American Cereal Co and Plant Co shares to Kellogg Company's shareowners. Shareowners would receive shares in the two spin-off entities on a pro rata basis relative to their Kellogg holdings at the record date for each spin-off. We expect the

North America Cereal Co spin-off may precede that of Plant Co with both currently targeted to be completed by the end of 2023. Over the next several months, we will be working to finalize organizational structures and management teams of each of the spin-off companies as well as capital structures and dividends. We will also be completing audited financials of the three companies. And of course the transactions are subject to reviews and final approvals by Kellogg's Board of Directors, relevant tax authorities and the SEC.

Slide number 21 offers some financial elements to expect from us. We will share details with you along the way both in our normal quarterly earnings releases as well as on an ongoing basis through a special website unleashingourpotential.com. Importantly, we'd be very focused on sustaining our good business and financial momentum, taking care to mitigate against any potential disruption. From a financial perspective, we can only share with you some preliminary high level aspects at this time. We've already discussed our preliminary estimates of how net sales and EBITDA split across these entities in 2021. Though they should be considered directional only as they are preliminary and include a fairly simplistic methodology of allocating center and other shared expenses.

We are committed to maintaining an investment grade rating for Global Snacking Co after the separations preserving access to commercial paper. And we will ensure though spin-off companies are equipped with solid balance sheets and return on capital profiles. We expect to maintain our strong dividend in the aggregate. And we will determine later how it splits across the three businesses. The company will begin incurring pre-tax expenses related to executing the transaction and setting up the new companies. To ensure visibility into the ongoing results of the businesses, the company will disclose these upfront costs and exclude them from its adjusted basis, results, and its external reporting.

So at this point, this is what we can share with you. We will keep you apprised of all developments as well as updating you on the performance of each business as we always do. And with that, I'll turn it back to Steve.

Steven Cahillane {BIO 4718688 <GO>}

Thanks, Amit. I think you'll recognize this news as Kellogg Company taking yet another bold decisive move to create shareowner value. We already have the company performing very well, and you've seen this in our results. Now from a position of strength and momentum we're ready to take the next step and further unleash the potential of our portfolio. We'll have much more details to share in the coming months.

And now we'll open up the line for questions.

Questions And Answers

Operator

Thank you. (Operator Instructions) Our first question comes from Andrew Lazar of Barclays. Andrew, your line is now open.

Q - Andrew Lazar {BIO 1973907 <GO>}

Great. Good morning everybody.

A - Steven Cahillane {BIO 4718688 <GO>}

Good morning Andy.

A - Amit Banati {BIO 16339861 <GO>}

Good morning Andrew.

Q - Andrew Lazar {BIO 1973907 <GO>}

So I guess my question would be, I mean clearly a sizable portion of the value creation opportunity here is how the global snack business will be valued. I guess I'm trying to get a sense of how you balanced the decision to include some other pieces, like the International Cereal, Eggo, Africa Noodles, obviously for scale and given the growth profile of those businesses versus, I guess, the risk of potentially diluting what would otherwise be more of a pure play global snacking asset. Thanks so much.

A - Steven Cahillane {BIO 4718688 <GO>}

Yeah. Thanks, Andrew. I think you hit on it. Scale is very important. And when we look at our international businesses, having the symbiotic relationship between our snacking business and our cereal business is quite important. And they are growth businesses for us as well. So we're very confident that it's the right strategic move to keep those in place. Africa noodles is another terrific business providing great scale in West Africa through our Multipro distributor. And so, as we evaluate all these opportunities, scale was one component of it, but what was best for the brands was also another component of it. You mentioned Eggo, and Eggo we believe also has international expansion opportunities. So when you think about Cereal Co, think about it as a Canada, US, Caribbean business, and therefore wouldn't really have opportunities to expand Eggo internationally.

The other thing I'd just like to hit on, when you talk about value creation, there is tremendous value creation in the cereal business as well. And so, having a solely focused dedicated business against US, Canadian, Caribbean cereal, we think it's a great value creation opportunity as well. And we think that as an independent business has great fortunes in front of us and equally plant-based in that space. So all three components we believe provide tremendous value creation opportunities for our shareowners. And we like the way that we've apportioned the businesses on an international perspective.

Q - Andrew Lazar {BIO 1973907 <GO>}

Thanks. I'll pass it on.

Operator

Thank you, Andrew. Our next question comes from Cody Ross of UBS. Cody, your line is now open.

Q - Cody Ross {BIO 20114780 <GO>}

Hey, good morning guys. Thank you for taking the question. Just real quick, have you guys previewed this transaction with any of the ratings agencies? Just curious how they're going to treat it. I know you said that it's your intention to make the global snacking business investment grade. Can you just describe the other two, will those be investment grade as well? Thanks.

A - Amit Banati {BIO 16339861 <GO>}

Thanks, Cody. We've obviously been in dialog with our rating agencies. I think as you'd expect, at this stage, given the size of the transaction and the lack of detailed financials, that dialog is ongoing. I think you know we committed to remaining investment grade with access to commercial paper on Global Snacking. And I think the capital structure of the other two companies, we will determine closer to the spin. So that's the current thinking.

Q - Cody Ross {BIO 20114780 <GO>}

Got you. And then just last question for me. How long has this been in the works for you guys. How long have you been kicking the tires and really been thinking about this? Thank you.

A - Steven Cahillane {BIO 4718688 <GO>}

So Cody, I'd say it goes all the way back to when we launched our original Deploy for Growth strategy. One of the important planks of that was shaping a growth portfolio. And so, you've seen us do a number of things even before that strategy, 10 years ago, acquiring Pringles, obviously a fantastic acquisition. But since Deploy for Growth, we've purchased RXBAR, we double down in Africa with investments there, we divested the Keebler pie cone, ice cream cone crust business. And so we've constantly been evaluating it. And this has been part of that, looking hard at the entirety of the portfolio and how the different parts of the portfolio could best be served and could best flourish.

And so, obviously during the pandemic, you put a lot of things on pause as you're just making sure that you can keep people safe, keep food flowing through the system, giving back to our communities, but we never stopped exploring value-creation opportunities. And the time is right now because we've got lots of strength, we feel like our top-line has been reliably restored to terrific growth. And this is that just the next unlock in that transformation journey and deploying for growth by shaping a growth portfolio, and we're excited about the prospects that this gives us.

Operator

Perfect, thank you. Our next question comes from Ken Goldman of JP Morgan. Ken, your line is now open.

Q - Ken Goldman {BIO 15002920 <GO>}

Hi, thank you. I'm wondering if you can give us a little bit of a rough sense of how much of a margin opportunity there might be within the domestic cereal business over time. And kind of what do you see as a more normal margin today. I know you provided some numbers, but I assume that's still a little bit deflated just given the strike or the fire. So just want to get a sense of kind of where you think run rate is on a normal basis and where you think that can get to just roughly, if possible?

A - Amit Banati {BIO 16339861 <GO>}

Yeah, I think, obviously the margins that we've shared and we've given you the '21 EBITDA, that is -- and it's preliminary, I think it assumes allocations on a simplistic sales basis across the three companies. But I think if you look at that, that has clearly been impacted by the fire and strike in 2021. And I think as we've talked previously that impact flows through into the first half of this year as well. I think as we get into the second half, that will normalize. And I think as that business builds back and like we've talked, right, we've been singularly focused on the recovery of that business, and we're making good progress on that. And so, I think you'd expect that margin to start picking back up.

I think from a longer-term standpoint, I think the dedicated focus and the investments into capability, into margin growth opportunities, the North America Cereal Company will have that ability to pursue that and would continue. And we'd expect for that business to continue to drive margins.

Q - Ken Goldman {BIO 15002920 <GO>}

Okay, thanks for that. And then quickly, Steve, I do appreciate the value creation potential. We've certainly seen companies over time split off some growth from some value in different geographies and so forth. I'm just curious though, and I know you touched on this a little bit. Are there certain aspects of the business together that were sort of holding you back, meaning are there things that you'll be able to do whether (inaudible) each of these companies will be able to do from a strategic or an M&A or an operational standpoint that maybe you couldn't do when it was all part of one entity.

A - Steven Cahillane {BIO 4718688 <GO>}

Yeah, Ken. I think that's right. And so, if you just look at the cereal business, cereal will be solely dedicated to winning in cereal in the three geographies, the Caribbean, the US, and Canada and will not have to compete for resources against a high growth snacking business. So Frosted Flakes does not have to compete with Pringles for resources. And now an economist might say well, you could do that without splitting up the companies, but we don't live in a textbook, we live in the real world, and that's just the way it works. And so, having the ability to focus first thing in the morning on how am I going to win in cereal? And then thinking at the end of the day what worked and what didn't work in cereal and planning the next day's activities, it's just we see that opportunity to focus solely on the businesses at hand.

Same thing for Global Snacking Company and plant-based, it just has the resource allocation strategy dedicated and focused, it has your balance sheet, your capital structure, everything focused on how you're going to win in that dedicated category. So we do think that there is going to be unlocks and great opportunities for all three businesses because they'll be independent.

Q - Ken Goldman {BIO 15002920 <GO>}

Great. Thank you.

Operator

Thank you. Our next question comes from Ken Zaslow of Bank of Montreal. Ken, your line is now open.

Q - Ken Zaslow {BIO 5641218 <GO>}

Hi, good morning everyone.

A - Amit Banati {BIO 16339861 <GO>}

Good morning.

A - Steven Cahillane {BIO 4718688 <GO>}

Hi, Ken.

Q - Ken Zaslow {BIO 5641218 <GO>}

Let me try and ask Ken's question a little bit differently. What has Kellogg's historical margins been in cereal? And there is one competitor out there that we see has about a 20% plus EBITDA margin. Is there a reason why Kellogg would not be able to achieve that? Would there be something that prevents Kellogg from moving in that direction? And then my follow-up question would be, without a management team in place for the cereal, how do you keep everybody motivated in the next year, year and a half to progress towards that goal? Thank you.

A - Amit Banati {BIO 16339861 <GO>}

Yeah, so maybe I'll start with the margins and then I'll pass it onto, Steve. I think like I mentioned in the near-term the margin has clearly been impacted by the fire and strike, right. And I think as we previously mentioned and as you're seeing today, the impact from a '21 standpoint and from a '22 first half standpoint, and I think we'd expect that to recover in the second half and into '23 as that, as you know we restore supply and full commercial activity behind cereal. I think longer-term, and as I think going back to the previous question on value creation opportunities, I think margin improvement in the cereal, in the US cereal business is definitely a value creation opportunity for that company. And they'll have the capital, resources, focus to go after that margin opportunity.

A - Steven Cahillane {BIO 4718688 <GO>}

And Ken, great question, how do you keep people engaged during times of transition and change? As exciting as this is, obviously it creates uncertainty and we're well aware of that. But we have a very strong change management agenda in place to keep our employees informed, motivated, and engaged. Also keep in mind our international region stay almost entirely intact. And then splitting the three companies creates exciting career opportunities for our folks. So where we have one of -- one thing, we're going to have three, right. We're going to have three heads of communication, three IR Heads, those types of opportunities are very exciting for our people.

And when we separated our Keebler business, we created exciting opportunities for our people there and we always -- we will always treat our people fairly with dignity and respect. But this is an exciting time, this is an exciting time for our people. It's additive, it's the next step in our transformation where as soon as we're done with this call, we've got a global town hall, which I'm excited to talk to all of our people about. So I'm very confident we're going to keep our people engaged, enthused, excited about the business at hand for the next 18 months. But also the opportunities that this presents going forward for all of our people, we're very focused on that.

Q - Ken Zaslow {BIO 5641218 <GO>}

Great. Thank you.

Operator

Thank you for your questions, Ken. Our next question comes from Robert Moskow of Credit Suisse. Robert, your line is now open.

Q - Robert Moskow {BIO 6299775 <GO>}

Hi, thank you. I'm just trying to figure out an estimate for dis-synergies from the transaction. I know that you're going to provide us with that down the road, but can you just give us some color on what kind of inefficiencies you would expect this to create in distribution and procurement? We know they need different IR departments, but can you speak a little bit about that?

A - Amit Banati {BIO 16339861 <GO>}

Yeah, so I think, on an ongoing basis, there will be dis-synergies. I mean, I think our North America business is an integrated business. And so, I think as we stand up the three companies, you would expect there to be some dis-synergies in common areas. I would say that we expect transition services agreement for a couple of years post the split. So if you think about the spin-off timing, we've talked about 18 months for that, transition service agreements running for a couple of years after that. So we've got time to work through the dis-synergies.

I would also say that we've done a really good job of eliminating the dis-synergies and the stranded cost post the Keebler divestiture and you've seen that flow through in our '21 results. So I think we've done this before, we've got good experience in doing it. And we've got time to address the dis-synergies.

Q - Robert Moskow {BIO 6299775 <GO>}

And just so I understand, the TSA agreement, would that be like the spin-offs paying a TSA kind of payment to the Global Snacks business?

A - Amit Banati {BIO 16339861 <GO>}

Yeah, I think so, I think both the spin, right, you'd expect in areas like IT, for example, global shared services that for a period of time there would be shared services -- there would be transition agreements for those shared services, even in areas like maybe logistics, maybe distribution centers.

Q - Robert Moskow {BIO 6299775 <GO>}

Right. All right. Thank you.

Operator

Our next question comes from David Palmer of Evercore ISI. David, your line is now open.

Q - David Palmer {BIO 6061984 <GO>}

Thanks. Just to follow up on North America Cereal, I think it was really Ken's question I am following up on, the low-double digit EBITDA margins on a depressed '21 sales is probably a lot worse than your peak levels. Could you speak to maybe where (inaudible), as an example I'm looking at rough benchmarks, the EBITDA margin for post cereal business for example where mills' [ph] retail business are in the 20s. So I'm just wondering if you could give us a sense about where that business might have been in sort of recent periods pre strike and fire and some of the other reconfigurations you've been doing. Thanks.

A - Amit Banati {BIO 16339861 <GO>}

Yeah, I think, so firstly like I said, it has been our margins were significantly impacted by the fire and strike, right. And I think it's also important to understand or to -- these are fully allocated, so it includes a share of corporate allocations as well as opposed to potentially you may have been referring to divisional profitability numbers. These are fully allocated numbers. So there are some, so that will impact the margins as well. But having said all of that right, I think from the '21 basis -- from the '21 basis, there is a margin opportunity in the cereal business.

Operator

Thank you. Our next question comes from Alexia Howard of Bernstein. Alexia, your line is now open.

Q - Alexia Howard {BIO 15082983 <GO>}

Good morning everyone.

A - Steven Cahillane {BIO 4718688 <GO>}

Good morning.

Q - Alexia Howard {BIO 15082983 <GO>}

Can I ask about -- hi there. Can I ask about the timing of news about this over the next few months. So what are the next milestones during the course of 2022, when do you anticipate that we might get financial breakout in the standard -- the extra (inaudible) dis-synergies and so on, just that we have an idea of the playbook here.

A - Amit Banati {BIO 16339861 <GO>}

Yeah, so I think from a time-line standpoint, right, I think we've got to prepare three years of audited statements for the spin-out companies. We expect to do that somewhere in the second half of '23. So call it about a year from now and the significant work associated with that. I think from a rest of '22 standpoint, you know, we'd be reporting and obviously we'd be updating you on the performance of these businesses as part of our earnings calls. But you can expect that for the rest of the year we'd be continuing to report on a total basis as we have with updates on the performance of each of these businesses. And then I think you know from a '23 standpoint we probably give guidance on a total basis. And then as we get into '23 and as we have the carve-outs, we'll start sharing the details of each of the specific companies.

Q - Alexia Howard {BIO 15082983 <GO>}

Very helpful. Thank you very much. I'll pass it on.

Operator

Our next question comes from Pamela Kaufman of Morgan Stanley. Pamela, your line is now open.

Q - Pamela Kaufman {BIO 18021242 <GO>}

Hi, good morning.

A - Amit Banati {BIO 16339861 <GO>}

Good morning.

Q - Pamela Kaufman {BIO 18021242 <GO>}

So just given the length of time between the announcement and when you expect to complete the transaction, I was wondering if you can give us any sense for how you plan to prioritize investment behind the three businesses. You mentioned that typically the snacks business would be a priority over cereal. But if you could give us a sense for how you plan to incentivize the employees and allocate investment over that time-frame, that would be helpful.

A - Steven Cahillane {BIO 4718688 <GO>}

Yeah. Thanks, Pamela. So I would say, it's really business as usual over the course of the next 18 months. And business as usual for us means that the US cereal business, for example, coming out of the fire and strike, we are fully dedicated to bringing that business back. And we've been very successful in doing that and ahead of plan in terms of the production capacity we're getting out of the four cereal plants, in terms of the total distribution points that we're building back at store, and in terms of the share, gained four share points since the beginning of the year.

So we are determined to continue that momentum and continue driving that forward. And obviously we've got great momentum in our snacking business and we've got a good business plan for this year, which we've been performing well against, you saw our first quarter results. We'll have more to report obviously on August 3rd. And then when we get into August 4th -- when we get into next year, we'll talk about exactly what that business plan looks like. But we're very confident in our business, you've heard us say we're going to come out of the pandemic as a stronger company. We believe that, that has happened. The strength of our portfolio and the robustness in our top-line is what allows us to make this bold move. And so, we're going to run the business as we normally run it as we prepare for the split down the road.

Q - Pamela Kaufman {BIO 18021242 <GO>}

Thanks. And then just a question on how you plan to allocate debt to the businesses. You mentioned that the plant-based company will be debt free. So should we assume, you know, how should we think about the split of debt across the other two businesses?

A - Amit Banati {BIO 16339861 <GO>}

I think it's to be determined, right. So we'll give you updates as we get closer to the spin. Like I mentioned earlier, right, we'd expect Global Snacking Co to continue to remain investment grade with access to commercial paper. I think you could -- you should expect very similar leverage ratios. And then the cereal, our North American Cereal Co can carry its share of debt as well. But the specifics are to be determined.

Q - Pamela Kaufman {BIO 18021242 <GO>}

Great. Thank you.

A - Amit Banati {BIO 16339861 <GO>}

Yeah. And I would say that we would expect to maintain our dividend in aggregate. Again, you know the specific dividend strategies of each of the companies is TBD. But in aggregate, we would expect the dividend across the three entities to be intact, and competitive with our peer set.

Operator

Thank you. Our next question comes from Bryan Spillane of Bank of America. Bryan, your line is now open.

Q - Bryan Spillane {BIO 2147799 <GO>}

Thanks, operator. Good morning everyone. So maybe just first a follow-up to Pam's question, and Amit, can you give us a sense of where the pension obligations will be allocated, because it's important I think in terms of the adjusted leverage and also important part of the enterprise value calculation. So where do the pension obligations sit amongst these three businesses?

A - Amit Banati {BIO 16339861 <GO>}

Yeah, again I think it will flow with the businesses. And so, I think each of the businesses would carry their pensions with them. I think our plans are well-funded. And so, I think it will flow through to the respective balance sheets.

Q - Bryan Spillane {BIO 2147799 <GO>}

We can't see that, right. Like you don't disclose the pension obligation at that level. So give us -- can you give us a sense of, you know where, which is more sort of union heavy in terms of the three?

A - Amit Banati {BIO 16339861 <GO>}

Yeah, I think those -- we will share those details as we go along, and as we work through the carve-outs of the financials. And that will be obviously an inherent part of the carve-out work.

Q - Bryan Spillane {BIO 2147799 <GO>}

Okay, all right, thank you. And then just one, I guess one other question is, we've talked a bit about resources and each company by each of the separate companies would have better decision-making or resource allocation, but if there is dis-synergies, doesn't that imply that there is less resources available for these businesses regardless of how they're being allocated. I guess I'm trying to understand, just how this actually creates more resources if part of the issue with at least with cereal maybe was that, it was not getting as much resources. So that -- are there more resources as a result of this or not?

A - Steven Cahillane {BIO 4718688 <GO>}

I think what the point we're making Bryan is, it's about focused resources, right, focused and dedicated resources, incentive plans, everything around being directed against the cereal business on the one hand, Global Snacking Co on the other hand and plant-based. So it's a focus of resources. And in terms of the dis-synergies, you see -- we've studied quite a number of carve outs and spin-offs and so forth, and we're very confident that we'll work through those dis-synergies as well. And so -- and the remaining businesses all have terrific scale, so you think that Global Snacking Company as $11.4 billion business, but North American Cereal Co at $2.4 billion worth with margin expansion opportunities. So creating more resources through growth, creating more resources through expanding our margins, improving our productivity. These will all be part of the very focused game plans coming out of this.

Q - Bryan Spillane {BIO 2147799 <GO>}

Well, thanks Steve. And just one last one, if you can indulge. Gotten this question a couple of times this morning. To the extent that you've got a tax-free spin, and then maybe potentially some of the spin-co becoming M&A targets, do you have a sense yet from your advisors when the clock starts in terms of the two-year window to maintain the tax-free status? Does it start today, does it start when the spins actually are executed or just if you have any -- had that discussion at all with your advisors and if you can share that would be helpful?

A - Amit Banati {BIO 16339861 <GO>}

Yeah, I think it will be, post the -- once the spins are executed.

Q - Bryan Spillane {BIO 2147799 <GO>}

Okay. Thank you.

Operator

Thank you, Bryan. Our next question comes from Jason English of Goldman Sachs. Jason, your line is now open.

Q - Jason English {BIO 16418106 <GO>}

Hey, good morning folks. Thanks for (inaudible) me in.

A - Steven Cahillane {BIO 4718688 <GO>}

Good morning, Jason.

Q - Jason English {BIO 16418106 <GO>}

Couple of questions. The -- I think so much of the debate is going to revolve around the multiple on snack up. You gave us some growth profile figures for last two years -- two years -- last two years have been kind of wonky, a little unusual with COVID and now the hyperinflation. Can you give us a longer dated time-frame like what does this business grow maybe the last five years, what it looked like pre-COVID on a standalone basis?

A - Steven Cahillane {BIO 4718688 <GO>}

Yeah, off the top my head, Jason, I don't really have that. But what I can tell you is, if you look at back when we exited DSD, that's really been the beginning of the rejuvenation of many of our snack brands. And they've done terrifically well. You're quite right that COVID has made everything wonky. But when you look at the performance post DSD of our Cheez-It business -- now our Pringles wasn't DSD, but allowed us to think about that in a different way. Our Pringles business, our Rice Krispies Treats business, these have all done very, very well. And you look at the last two years and Global Snacking Co is a high-single digit growth company. And that's attractive, no matter what peer set you're looking at.

And so, when we look at the brands that make up that portion of the portfolio, we're quite confident that it is a terrific portfolio. And going back to the cereal business in North

America, we think that there is lots of growing momentum for that business. Obviously coming out of also what is a very strange comparison because of fire and strike. But business gaining great momentum. And in the future that will be independent and fully resourced, we think is a winning strategy.

Q - Jason English {BIO 16418106 <GO>}

For sure. And I don't think anyone would debate you on the brand argument on global snacks, at least as it pertains to brands like Cheez-It, which and particularly the (inaudible) and Pringles. But I do hear skeptics suggest like, hey, there is a big tail here that's not so high quality. So can you give us more context like, I see global snacks -- how big is Pringles, like your hero brands, how big are they as a percentage of this portfolio?

A - Steven Cahillane {BIO 4718688 <GO>}

The only thing I can add there is that those brands that we showed you on the slide, they are the world-class brands that we outlined, those will be about three quarters of the North America portion of the Global Snacking Co. So that gives you kind of a rough idea of those. And then internationally, Pringles will be a very important brand in all three regions for snacking. But we don't -- unfortunately we are not organized this way, so we don't have all that back data for you, Jason. But I do want to get back to your growth rate question, if you look at the last few years individually, you're right, there is some wonkiness in 2020 and 2021, that's why we try to give you a two year CAGR.

But you've seen consistent growth in Europe, Latin America and EMEA on snacks led by Pringles. You've seen overall good sales growth in cereal in those three regions. And you've seen exceptional growth in noodles and other during those three years. So while we don't have the breakout of that new structure going way back, that can give you an idea from an organic net sales growth of each of those subsets. Does that make sense?

Q - Jason English {BIO 16418106 <GO>}

Yup, makes plenty of sense. Thanks a lot. I'll pass it on.

Operator

Thank you. Our next question comes from Jonathan Feeney of Consumer Edge. Jonathan, your line is now open.

Q - Jonathan Feeney {BIO 2268157 <GO>}

Hey, good morning and thanks very much. Historically past couple of decades these kinds of transactions have had a mixed reception at retail. Clearly -- you talked about competing for resources internally with North American Cereal, and other places, but from a retailer perspective, sometimes it can be interpreted that this kind of a split up means less resources for a business like that or less prioritization from us, what will be a smaller organization. Have you previewed this change to retail partners. Have any sense internally, what that kind of reaction would be and what steps proactively can you take to position this as you position it to us as positively as possible? Thanks.

A - Steven Cahillane {BIO 4718688 <GO>}

Yeah. Thanks, Jonathan. We obviously have not previewed this with customers prior to. I've had some interactions early in the day with our customers, and it's an exciting time for us. And I think the fact that the global -- excuse me, the North American Cereal business is of the scale that it is with the household penetration that it has, the iconic brands it represents, it is important for retailers, absolutely important. And I think we can convince -- we've convinced ourselves that this is absolutely the right thing to do for our cereal business. It's a value creation opportunity for the entirety of the company, but it is the right thing to do for our cereal business. And I think that will translate well with our customers. So that they know that the Kellogg's cereal business in the United States, Canada and the Caribbean has a dedicated, focused management team, dedicated customer teams that have really one objective, and that is to win in cereal with our retail partners.

And so, the fact that it's got that scale, I think is very helpful. And then internationally, it remains together. And so, no issues there. But we'll be having those conversations over the coming days with our customers, and we will make the commitment that we are absolutely dedicated to the partnerships that we have with them, and that we're going to make this a winning -- a win-win exercise for them and for us.

Operator

Thank you. Our next question comes from Steve Powers of Deutsche Bank. Steve, your line is now open.

Q - Steve Powers {BIO 20734688 <GO>}

Hey guys, good morning. Thanks. First is, I have a couple of financial questions, just on Bryan Spillane's pension question. I guess my intuition is that the US cereal business would carry the majority of that pension. Is there any reason to think that, that intuition is incorrect? Number one.

And number two, over the next 18 months, I understand you're going to be adjusting out some of the costs associated with positioning for this three way split. But is there any estimate of the cash cost that you will incur alongside that even if hit the P&L, I'm just I am interested in the incremental cash that will have to go to fund this initiative over the next 18 months.

A - Amit Banati {BIO 16339861 <GO>}

Yeah, I think on the pensions, like I said, right, I think it's work to be done as part of the carve-outs, we'll update you when you have the information. I think the pensions will flow with the businesses, and the plants. And each has its own profile. But we will give you more details as we progress the work through the carve-outs.

Q - Steve Powers {BIO 20734688 <GO>}

Okay. And then any color on cash?

A - Amit Banati {BIO 16339861 <GO>}

On the cash, again I think you know we will update you as part of our next earnings call and as part of our guidance for cash flow. And we will obviously be incurring costs. But I think we'll give you an update on August 4th.

Q - Steve Powers {BIO 20734688 <GO>}

Okay, cool. And Steve, I guess this question has been asked a couple of different ways. But -- and I conceptually fully get the idea of enhanced benefits from focus, as you go forward. But I guess are there specific instances, you can point to in the recent past, where you've not been able to move as quickly as you would have liked to or you've not been able to apply the focus that you would have liked to or you haven't been able to optimally allocate capital. I'm just -- I am trying to get a better sense of the problem you're trying to solve by doing this at this particular point.

A - Steven Cahillane {BIO 4718688 <GO>}

Yes, Steve, let me take a stab at that. I wouldn't phrase it as a problem we're trying to solve because again, we've turned the business very successfully back to growth. And obviously there has been a lot of noise, as Jason pointed out with COVID and all the other various things. But we're -- our portfolio is hitting its stride right now. And so, this is an opportunity to make it even better. But to your question, if you think about just the MorningStar and the environment that it competes in right now has changed fairly dramatically from where it was just a couple of years ago with players that are coming in very rapidly that are not profitable that are playing a different game.

This allows MorningStar Farms to play that different game, because it's an independent company. It will have its own strategy. And it may be more aggressive in that strategy in the way that expands across channels, the way that expands internationally, because it won't have the burden of being part of a global corporation where its profit is in our base, right, and so it's very difficult to think about that in a different way.

And if you think about the cereal business, again the opportunities that it creates and I said this earlier is, it's not a diminution of resources right, that business as it grows and as it grows its margin profile will generate cash and will generate more cash and more profit. And will allow us to make investments in areas where as a global corporation it would have to compete with a Cheez-It expansion in Brazil. Well, it won't have to do that anymore. And so, we believe that will create resources, will create the future opportunities for these businesses. And the strategic imperatives that they face, they'll be able to face with a focused resource plan and a management team that at this point is just a little bit different.

Q - Steve Powers {BIO 20734688 <GO>}

Okay, fair enough. Thank you very much.

Operator

Thank you, Steve. Our next question comes from Rob Dickerson of Jefferies. Rob, your line is now open.

Q - Rob Dickerson {BIO 19993946 <GO>}

Great, thanks so much. Just first question trying to keep it simple. Just in terms of the dividend allocation, I believe you said, you maintain kind of current level of dividend (inaudible) companies, obviously impressive transaction like this in times right, the higher growth vehicle might not pay you as much. And look to reinvest in terms of (inaudible) acquisitions, while more of the "cash co" might pay more of a dividend. I haven't heard anything really touched on that side. Is that something that we should be thinking about just given the potential growth profile of cereal and maybe not as many acquisition opportunities if you were to stay in a vertical. That's the first question.

A - Amit Banati {BIO 16339861 <GO>}

Yeah, I think we'd expect, like I said, in aggregate, we'd expect the dividend to be similar to where it is right now. I think you know both companies, both Plant Co as well as North America Cereal Co the dividends would be attractive. And would be competitive with their peer set. And I think the specifics, more details we'll provide you as we get closer to the spins. But that's the -- that's our thinking right now.

Q - Rob Dickerson {BIO 19993946 <GO>}

All right, fair enough. And then just quickly kind of have to ask just given, you did throw out there potential sale of the plant business at some point in due time. Is there anything that would preclude you from selling that business before the actual spin date with the appropriate offer. That's all I have. Thanks.

A - Steven Cahillane {BIO 4718688 <GO>}

Yeah, no, when we made the announcement, Rob, you saw that we talked about a spin, we're committed to a spin, but we will also evaluate other strategic alternatives, should they present themselves. And that could happen at any time. And so, I'd say the clock starts on this call right now as it's gone public. And we believe that the business is a terrific business with great value. And so, that's why we put that out there in terms of optionality.

A - John Renwick {BIO 19769692 <GO>}

Operator, I think that's all we have time for, so that we can turn it back to Steve for some closing remarks.

A - Steven Cahillane {BIO 4718688 <GO>}

Yeah, so look, thanks everybody for jumping on the call in kind of the last minute thing. I'm sure you recognize the importance of this announcement today. Mr. Kellogg started this great company 116 years ago today. So the fact that we're making this announcement, we are making this decision, and we're doing it from a position of our choice, right. This was our evaluation, our choice, we're doing it from a position of strength and we're absolutely excited about it. We think it's the right thing to do for us, at absolutely the right time. But it is nothing short of transformational for this great company. And I hope you are as excited as we are. We think the future is very bright for three of these companies, for all three of these companies, it is a true value creation journey that we're embarking on.

But I'll close with the next 18 months, we are going to be dedicated and solely focused to delivering the business day in and day out as we've done. And we can only do that because we've got the greatest employees who are dedicated to making that happen. And this is a big announcement for all of them today. I'm looking forward to just shortly addressing all of them in a global town hall. So, thanks for your interest. We appreciate your time and we'll talk to you soon.

Operator

Thank you all for joining today's call. You may now disconnect your lines and have a lovely day.