Q2 2024 Earnings Call

Company Participants

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

Other Participants

- Alexia Howard, Analyst, Sanford Bernstein
- Andrew Lazar, Analyst, Barclays Capital
- Chris Carey, Analyst, Wells Fargo Securities
- David Palmer, Analyst, Evercore ISI
- Ken Goldman, Analyst, J.P. Morgan
- Max Gumport, Analyst, BNP Paribas Global Markets
- Michael Lavery, Analyst, Piper Sandler
- Peter Galbo, Analyst, Bank of America
- Rob Dickerson, Analyst, Jefferies
- Rob Moskow, Analyst, TD Cowen
- Steve Powers, Analyst, Deutsche Bank
- Thomas Palmer, Analyst, Citi

Presentation

Operator

Good morning. Welcome to Kellanova's Second Quarter 2024 Earnings Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session with publishing analysts. At this time, I would like to turn the call over to John Renwick, Vice President of Investor Relations and Corporate Planning for Kellanova.

Mr. Renwick, you may begin your conference call.

John Renwick {BIO 19769692 <GO>}

Thank you, operator. Good morning, everyone, and thank you for joining us today for review of our second quarter results as well as an update on our outlook for 2024. I am joined this morning by Steve Cahillane, our Chairman, President and Chief Executive Officer, and Amit Banati, our Vice Chairman and Chief Financial Officer. Slide 3 shows our forward-looking statements disclaimer. As you are aware, certain statements made today, such as projections for Kellanova'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 third slide of this presentation as well as to our public SEC filings. A recording of today's webcast and supporting documents will be archived for at least 90 days on the Investor page of www.kellanova.com. As always, when referring to our results and outlook, unless otherwise noted, we will be referring to them on an organic basis for net sales and on a currency neutral adjusted basis for operating profit and earnings per share. Also, remember that our 2023 results have been recast to treat the spun-off W.K. Kellogg Co as a discontinued operation in accordance with applicable accounting guidelines. Those recast statements can be found in our Q4 2023 earnings press release from February 8 of this year.

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

Steve Cahillane {BIO 4718688 <GO>}

Thanks, John, and good morning, everyone. We're once again pleased to report strong quarterly results that are clear evidence of our more growth oriented and more profitable portfolio following last fall's spin-off. Our year-on-year organic growth in net sales was again on algorithm and volume trends improved sequentially again outside of Nigeria. Our year-on-year currency neutral operating profit growth was also on algorithm and we continue to improve our profit margins. And we've returned to full commercial activity with our stepped-up innovation reaching shelves in the second-quarter. Delighting consumers is never more important than it is right now, and we now have our full plan in the marketplace, which should help us continue to improve our end-market performance in the second-half.

On Slide 6, we remind you of our strategy, differentiate, drive and deliver, which we continue to execute, helping us to deliver our near-term commitments, but also to build for a strong future and drive shareowner value. On Slide 7, we remind you of our global footprint whose diversification and exposure to faster-growing markets is a true point of differentiation for Kellanova. This differentiated footprint, along with our return to full commercial activity around the world contributed to our continued sequential improvement in volume in most of our regions. The chart on Slide 8 excludes our joint ventures in Africa, where currency-driven price increases in Nigeria have resulted in recent elasticities as we expected. We see that our businesses outside those JVs posted a fourth consecutive quarter of sequential improvement in volume and we drove the sequential improvement across our regions. Europe and the rest of AMEA both recorded moderating volume declines and North America and Latin America both returned to outright volume growth. Another key driver is shown on Slide 9, innovation. As discussed previously, we are returning to a full innovation launch calendar after the pandemic era supply disruptions. As you can see on the slide, we have a plethora of innovations launching across every one of the regions this year, ranging from limited editions to new flavors, to amplified wellness credentials, to entirely new food platforms.

I'll just highlight a few notables. In the second-half, we will be launching Pringles Mingles in North America. Our first out of the can launch in the United States in over 15 years. In late Q3, we will be introducing Cheez-It to Europe with a big launch in the UK, supported by a full arsenal of sampling, social media and public relations and advertising. We've innovated in away from home channels as well, sometimes leveraging these channels to drive consumer awareness. A good example is our partnering with Taco Bell to launch a Big Cheez-it Crunchwrap Supreme and a Big Cheez-It Tostada.

So, we feel very good about the quality of our innovations and the buzz, trial and incremental purchases they will generate. Indeed, this heavy innovation calendar should bring us back to normal levels of net sales contribution from innovation. Slide 10 measures year-one incremental sales from innovation launches expressed as a percent of our total net sales. Notice how the incremental net sales we expect to generate from this year's innovation launches are much higher than the last couple of years when we had been contending with global supply disruptions.

Getting back to delighting consumers through innovation is a key component of what we refer to as getting back to full commercial activity. Another good sign is shown on Slide 11. In our return to full commercial activity, we obviously prioritized our biggest brand, Pringles. The chart shows how this investment and activity is improving our net sales growth and in market performance for this highly differentiated brand. All of it led to another quarter of differentiated results, starting with organic net sales growth. Slide 12 shows how we continue to well outpace the median growth of our peer group, including our more directly-comparable snacking and international peers. This is precisely the greater growth orientation I mentioned earlier about our strategy and portfolio.

Now let's talk about how we are a more profitable company than we were previously. Slide 13 shows how our year-to-date gross profit margin and operating profit margin this year as Kellanova are meaningfully higher than the same periods pre-pandemic and pre spin off. And our improvement in margins continued in the second quarter, as Amit will discuss in a moment, even with a substantial increase in brand investment. Improving our margins is an important part of our strategy as they fuel our ability to invest in our brands and withstand unexpected shocks. And clearly, we are ahead of pace toward our 2026 target of a 15% operating profit margin. Because of how our business is performing, both from a top-line and bottom-line perspective, we are now raising our full-year guidance. Our first-half results came in better than expected and we remain on track for our second-half outlook. We feel good about our commercial activity now fully in the marketplace and that emerging markets will sustain their underlying momentum. Finally, we continue to progress on another element of our strategy and that is our Better Days Promise program.

Slide 15 provides just a few examples of this program in action during the second quarter. So let me now turn it over to Amit, who will walk you through our financial results and outlook before I come back and discuss each of our businesses in more detail.

Amit Banati {BIO 16339861 <GO>}

Thank you, Steve, and hello, everyone. Slide 17 summarizes our key financial results for quarter two and the first-half. As Steve said, we delivered another quarter of on algorithm results and another quarter of results that exceeded our expectations across all of these key metrics. Our organic growth in net sales in quarter two came in at 4%, remaining within our long-term target range. On a currency neutral basis, our adjusted operating profit grew by 16% year-on-year, driven by the organic net sales growth and continued improvement in margins in spite of a double-digit increase in brand building. Our below-the-line items continued to be a modest year-on-year headwind, though less than anticipated, resulting in growth in earnings per share of 14% on a currency neutral basis. Meanwhile, free cash flow also continued to increase year-on-year.

Slide 18 shows the major components of our year-on-year net sales growth in quarter two and the first-half. Price-mix growth continued to drive organic net sales growth even as it moderated as expected outside of Nigeria, where we executed price increases in quarter one. Volume declined on elasticity impacts around the world, but especially in Nigeria. As Steve mentioned, that market accounted for virtually all of our volume decline in quarter two. So the rest of our portfolio is clearly delivering on planned sequential improvement and even turned to growth in two of our regions. Moving along the graph, the small impact from last year's divestiture of our Russia business is now behind us as the transaction anniversary's at the start of quarter three.

Foreign currency translation clipped net sales growth by about 8 percentage points in quarter two, principally reflecting the Nigerian Nairo. Now let's discuss profitability, starting with our gross profit on Slide 19. Adjusted basis, gross profit continued to increase year-on-year during quarter two, up 9%, excluding currency and up 5% with currency. This sustains a strong trend as you can see on the slide. Meanwhile, we also continued to improve our gross profit margin with quarter two's margin up close to 340 basis points year-on-year. As we've discussed previously, the discontinued operations accounting used to re-cast 2022 and the first three quarters of 2023 takes into account only the expenses associated with our transition services agreement and not the pass-through of those expenses to WK Kellogg Co.

Year-on-year, this comparison item again contributed about 100 basis points of our margin expansion during quarter two and as we've also discussed previously, currency devaluations affected our country mix contributing a year-on-year margin benefit in quarter two of approximately 150 basis points, a little less than quarter one and something that should moderate more meaningfully in the second-half as we lap last year's largest devaluation of the Nairo. Leaving out these two transitionary items, our gross margin was still up by around 1 percentage point year-on-year, a recovery that continues to be aided by a resumed higher level of productivity and moderating input cost inflation. The fact that this gross margin restoration has continued to run ahead of pace gives us additional confidence in our full-year outlook of more than 35%.

We are experiencing growth and margin expansion at the operating profit line too as shown on Slide 20. Operating profit in quarter two grew 16% excluding currency and 13% with currency, sustaining a trend of year-on-year growth. Even if you exclude the impact of the year ago absence of transition services expense pass through, our operating profit grew by more than 6% on this currency neutral basis remaining on our algorithm. This underlying growth was driven by an improving gross profit margin and good discipline on overhead, all of which more than offset the impact of a double-digit increase in brand building investment. Even with increased investment, we are improving our profitability and marching solidly towards our guidance for an operating profit margin of over 14% in 2024 and our target of 15% by 2026.

Moving down the P&L, we come to our earnings per share walk on Slide 21. As you can see, all of our EPS growth in quarter two was attributable to our growth in operating profit, just as it was in quarter one. Looking at our below-the-line items, we can see that they again largely offset each other. Interest expense again increased meaningfully year-on-year, reflecting higher interest rates. This was partially offset by an increase in other income, principally reflecting interest income and investment gains. Our effective tax rate remained in the mid 22% range. Joint venture earnings and minority interest were relatively immaterial year-on-year. Our average shares outstanding were flat. The result of these items was an increase in adjusted basis EPS of 12% in quarter two and 14% on a currency neutral basis.

Let's now turn to Slide 22, which shows our free cash flow and net debt positions through quarter two. We remain ahead of last year on free cash flow through the first-half, though as we mentioned previously, some of this is related to the timing of a planned distribution from a post-retirement fund, which is expected to be offset later in the year. Even aside from that though, our cash flow generation remains solid. Meantime, we have continued to trim our net debt even as we return sizable cash to shareowners, mostly through our dividend and our debt leverage remains well below our targeted ratio of net debt to trailing EBITDA of 3 times, giving us excellent financial flexibility.

Now let's discuss our increased guidance for the full-year 2024 as shown on Slide 23. With half the year behind us, it is time to narrow the ranges we first gave at our Day@Kay Investor event 12 months ago and because of the strength of our first-half performance, we are in a position to raise this guidance. For net sales, we now expect organic growth of above 3.5%, an increase from our previous guidance that reflects our better-than-expected first-half performance. We are prudently keeping our second-half assumptions largely unchanged. Organic growth, of course, excludes currency translation, which based on exchange rates we saw during quarter two would be a headwind of about 7% for the full-year.

For adjusted basis operating profit, we are raising and narrowing the range to $1.875 billion to $1.9 billion, again primarily reflecting our first-half delivery. We continue to expect margin expansion for the year reaching above 35% for gross margin and above 14% for operating margin. Though the year-on-year impacts moderate in the second-half, mainly because of what we are lapping then. We don't provide guidance on currency translation, but to give you an idea, if the exchange rates experienced during quarter two hold for the year, it would be about a negative 3% headwind to our operating profit. Guidance for adjusted basis earnings per share increases to a range of $3.65 to $3.75, which incorporates the higher operating profit and other income that we experienced in the first-half. Specifically, other income should retain its first-half upside before settling back to a run-rate of $15 million to $20 million per quarter in the second-half. Our effective tax rate is now expected to be in the mid 22% range, only slightly better than we previously communicated. These factors are partially offset by interest expense now expected to be higher given quarter two's run-rate and joint venture earnings and minority interest collectively should run a little bit more negative in the second-half than the first. And we are raising our outlook for free cash flow to just above $1 billion with year-on-year growth driven by operating profit. And despite capital expenditure temporarily elevated as a percentage of sales for expanded Pringles capacity in emerging markets as well as usual cash outlays related to our two network optimization projects.

So we remain in a very good financial position. Our quarter one and quarter two results came in better-than-expected, enabling us to raise our guidance for the full-year and we are confident in the second-half. We have solid commercial plans that already are improving our volume performance around the world and this is starting to show-up more plainly in our in market data as well. Our profit margins continue to improve, progressing faster than planned, enabling us to reinvest in our brands and our balance sheet and cash flow remain in strong shape.

And with that, let me now turn it back to Steve for a run-through of our businesses around the world.

Steve Cahillane {BIO 4718688 <GO>}

Thanks, Amit. Let's start with Kellanova, North America in Slide 26. Our organic net sales were plus 1% in North America in the second quarter. Lapping last year's revenue growth management actions and last year's relative lack of merchandising activity, our price-mix was down slightly, continuing an as expected moderation that began over a year ago. Our performance on volume meanwhile improved sequentially for a fourth consecutive quarter and turned positive in the second quarter. Industry wide elasticities continued to be a growth headwind across our retail categories, but our return to full commercial activity, including our launches of innovation reaching shelves during the second quarter, led to volume growth in both consumption and shipments in our US retail business.

This was augmented by strong growth outside of these measured US channels in our US away from home business and our business in Canada. North America's operating profit increased substantially year-on-year as margins continue to improve. Even excluding the impact of year earlier recast figures not incorporating the pass-through of transition service expenses, North America's operating profit grew at a double-digit pace, aided by productivity and absorbing increased investment behind our brands.

Slide 27 shows North America's split between snacks and frozen foods. During the second quarter, our snacks business increased both in volume and price-mix year-on-year, generating organic net sales growth of more than 1% even as it faced a relatively strong prior year quarter. In our much smaller frozen foods business, net sales were off slightly in the second-quarter as we faced our toughest quarterly comparison of the year, but we did increase volume led by Eggo.

Slide 28 shows our volume recovery playing out in measured channels. We expect to sustain this improvement in consumption volume and share performance through the second-half. So North America is delivering strong financial results while getting back to full commercial activity that is taking hold in the form of improving volume performance, both in shipments and consumption. And as we think about the year, as shown on Slide 29, we remain right on track. We have increased brand building and merchandising and our stepped-up innovation is now in the marketplace. And we expect these investments to continue to improve our end-market performance in the second-half. Meanwhile, our margins continue to recover ahead of pace. This is a more focused team and portfolio since the spin-off, and we expect continued delivery in the second-half.

Now let's turn to Kellanova Europe and Slide 30. Our organic basis net sales in Europe declined a little less than 1% in the second quarter against our toughest quarterly comparison of the year. Our volume declines moderated, led by growth in snacks in the UK. Currency neutral adjusted basis operating profit grew by close to 7% year-on-year despite last year's mid-year divestiture of Russia. Profit margins continue to recover with a strong rebound in profit margins funding a significant boost in brand-building investments.

On Slide 31, you can see our two major category groups in Europe. Snacks, which represent over half of our sales in Kellanova Europe, grew organically by 1% year-on-year despite lapping last year's strongest double-digit growth. Pringles continues to perform well with strong consumption growth across key markets with particularly strong share gains in the UK and Spain and continued expansion in Poland and Romania. And in portable wholesome snacks, we gained share in our biggest market, which is the UK. In cereal, net sales declined by less than 3% in the quarter on category elasticities.

Slide 32 reminds you of what we've been planning for in Europe in 2024. Despite the slight quarter two decline against tough comps, we remain on track to deliver a seventh straight year of organic net sales growth in Europe. Pringles continues to demonstrate momentum, supported by innovation and exciting promotional partnerships. And we are ready and excited for our late quarter three launch of Cheez-It in the UK, which will expand our snacking portfolio in Europe. In cereal, innovations like Tresor Brownie are now in market and promotions like our Kellogg sponsored football camps are underway in the UK. So we're confident that we can manage through category-wide elasticity headwinds. Meanwhile, we are making progress on our plans for optimizing our cereal portfolio and manufacturing network.

Now let's look at our emerging markets regions, starting with Latin America in Slide 33. Latin America's net sales increased by 4% organically in the second-quarter, sustaining a mid single-digit growth rate on-top of big growth in the year earlier quarter. Price-mix growth is moderating as expected as we lap prior year actions to offset high cost inflation. Importantly, volume returned to growth in the quarter with gains in both snacks and cereal and led by Mexico. Operating profit increased in the second quarter on top of strong year-ago growth.

Slide 34 shows our Latin American net sales growth by category group. Organic net sales for our snacks business in Latin America grew 4% year-on-year with growth in both volume and price-mix. Salty snacks categories remain in growth across key markets in the region despite elasticities and Pringles has continued to outpace the category in our two largest markets, Mexico and Brazil. Our cereal net sales also increased by 4% in the quarter sustaining volume growth. Cereal categories in the region remain in growth despite elasticities and we have outpaced the category this year in key markets, Mexico and Brazil.

Slide 35 reminds you of what to watch for in our Latin America business this year. Here too, we expect a seventh straight year of organic net sales growth and we expect the growth to come from both snacks and cereal. Margins should improve, reflecting price pack architecture efforts as well as operating efficiencies and the potential for moderating input cost pressures later in the year. So through the first-half, Latin America is right on-track.

And we'll finish with our AMEA region, starting with Slide 36. Once again, currency influenced price increases in Nigeria drove substantially all of the region's 16% organic net sales growth in the quarter. Our business there continues to execute well, pricing again earlier this year to keep up with currency rates and during the second quarter, its volume declines were not as severe as expected. This may have positive implications for our second-half forecasts, but we are taking a prudent approach. Nevertheless, these short-term challenges are dramatically outweighed by the long-term growth opportunity that this growing market and our advantage assets provide us.

Outside of Nigeria and our joint ventures with Tolaram, our organic net sales increased at a mid-single-digit rate in the second quarter. Volume declined only slightly year-on-year despite category elasticities and the negative demand impact of tensions in the Middle East. On a currency neutral basis, AMEA's operating profit grew by 9% with growth in both Nigeria and in the rest of AMEA and margins continuing to improve even with a substantial increase in brand building investment.

On Slide 37, we see how our net sales growth split by major category groups. Noodles and others 26% organic growth reflects the currency driven pricing in Nigeria, which was only partially offset by elasticity driven double-digit declines in volume. Meanwhile, we continued to drive strong growth for Kellogg's Noodles in South Africa and Egypt, gaining distribution and share in those markets and successfully launching this quarter into Saudi Arabia. In snacks, we grew net sales organically by about 13% year-on-year with broad-based growth across the region led by Pringles. In cereal, our organic net sales grew 4% and this too was broad-based across the region in spite of category elasticities.

For AMEA, in 2024, we continue to watch for the elements listed on Slide 38. We expect this region to record yet another year of good organic net sales growth and we expect growth both within Nigeria and in the rest of the region. Noodles remains a growth business for us in Africa. Pringles will sustain its momentum, supported by innovation, pack formats and distribution. And we expect to sustain growth in cereal led by emerging markets. Meanwhile, AMEA's improvement of profit margins should continue.

So let me summarize with Slide 40. With each passing quarter, including the second quarter, it should be increasingly clear that Kellanova today has a strategy and portfolio that is more focused, more growth-oriented and more profitable than ever before. We're delivering on-algorithm performance amidst a challenging industry environment. We have strengthened commercial plans for 2024 and they are already starting to yield gradual improvements in volume. We are committed to improving our profit margins and this improvement remains ahead of pace. We are raising our guidance thanks to a strong first-half, an enviable position to be in, especially in the current industry environment. And yet, we refuse to sit still. We continue to create the future, be it in adding growth capacity in Pringles in emerging markets, expanding Cheez-It into Europe, expanding noodles in Africa or continuing to increase investment behind a portfolio with some of the most differentiated brands in the world. This commitment to driving shareowner value is shared by all of our Kellanova team members who deserve our thanks for all that they do.

And now we'd be happy to take your questions.

Questions And Answers

Operator

Thank you. We will now begin the question-and-answer session with publishing analysts. (Operator Instructions) As a courtesy [ph] to your colleagues, please limit yourself to one question. Our first question comes from Rob Dickerson with Jefferies. Your line is open. Please go ahead.

Q - Rob Dickerson {BIO 19993946 <GO>}

Super. Thanks so much. Good morning. So, Steve, I, I guess, you know clearly we could see the improvement in North America volumes, which is great, you know, part of that, you know, looks to be some, you know, from some proactive price investments. So, I'm just curious, you know, I think you said, you know, as you think through the back-half, you do expect, you know, back-half, you know, sustain volume improvement and then you have, you know, a great innovation plate. So, you know, really kind of, you know, the simple question is just, you know, as you, you know, go for the sustained volume improvement in the back-half in North America, you know, would you say, you know, most of that is coming from these things like incremental distribution, innovation or, you know, have you just been very proactive in the right way, you know, kind of focused on certain price points that have been driving that volume improvement relative to the industry? Thanks.

A - Steve Cahillane {BIO 4718688 <GO>}

Yes, thanks for the question, Rob. What I tell you is, you know, we've talked about getting back to full commercial activation and that's really the story in North America. It's really led by Pringles, which returned first and has terrific momentum. It includes increased distribution with new shelf resets in the second quarter as you mentioned. It includes a full commercial innovation activation, you know, we're back to levels that we haven't seen since pre-pandemic. And it's, you know, it's really that, Rob. It's a full commercial activation gaining momentum, you know, we returned to volume growth in the second quarter in North America. That will continue into the third and fourth quarter and actually improve as activation around Cheez-It and some of our other brands starts to catch-up to what we've done with Pringles. So -- and, you know, in terms of pricing, you know, we had to take, as you well know, a lot of price in the last two years. And so we're returning to the type of price promotion activity more or less that we saw pre-pandemic in a -- in a very rational environment. So, a bright, you know, bright spot for us is, you know, the, the second-half of the year and the volume that we've seen in North America.

Q - Rob Dickerson {BIO 19993946 <GO>}

Sorry. Super. One question.

Operator

We now turn to Chris Carey with Wells Fargo Securities. Your line is open. Please go ahead.

Q - Chris Carey {BIO 21810941 <GO>}

Hi, good morning, everyone.

A - Steve Cahillane {BIO 4718688 <GO>}

Good morning.

A - Amit Banati {BIO 16339861 <GO>}

Good morning.

Q - Chris Carey {BIO 21810941 <GO>}

I wanted to ask about Europe -- I wanted to ask about Europe. The volume under pressure as pricing is decelerating, but you also have some innovation coming. I think you highlighted Cheez-It. So just how would you characterize, you know, your go-forward in Europe? I know looking for another year of growth, but maybe, you know, how do you view kind of exit rate and the complexion of trend in the market as you think about balancing price and volume going forward?

A - Steve Cahillane {BIO 4718688 <GO>}

Yes, Chris, so I'd start with, you know, Europe is a tough environment, always has been, you know, it's tough this year. But in the second-quarter, we faced our toughest comps, particularly with Pringles. And you heard us say in the prepared remarks that we have a lot of confidence we're going to continue to grow in Europe and that's going to be in the back-half of the year. So we've got great back-half plans. Our football sponsorship was really started late in this quarter, so that will continue on to this quarter. So lots of confidence in Europe, lots of confidence in Europe continuing to grow. You saw that snacks did grow in the second quarter, that will accelerate in the third and fourth quarter based on the activations. And we are very excited about the Cheez-It launch in the fourth quarter. And when I say very excited it's, you know, it's just a great program that they put together in the UK. The customers are excited about it. The consumer testing of the product is outstanding. And so we see big things for Cheez-It, you know, in the next couple of years. It's going to be -- it's going to be a real growth driver for us. So bullish on Europe despite a challenging environment. I know that makes us a little different than some others, but, you know, our team has delivered now, you know, seven years of growth in Europe. And so that will continue this year.

Q - Chris Carey {BIO 21810941 <GO>}

Thanks, Steve. And if I could, just -- this is a follow-up on the -- on the pricing comment in, in North America. It's great to see the volumes, in fact [ph], you did make a comment, I think in the prepared remarks about some year ago timing impact with promotion or price activity, but would you expect pricing to stay negative as you -- and certainly as you're clearly seeing this -- this positive and constructive uplift in, in volume as, as you go forward? Thanks so much.

A - Steve Cahillane {BIO 4718688 <GO>}

You know, we see pricing remaining, you know, very, you know, very rational in the environment. Remember, we're lapping a real dearth of activity last year. So that's what you see when you see our year-over-year comparisons, you know, we've talked about it quite a lot. We, you know, we pulled back on commercial activation because of the bottlenecks shortages. We were perhaps a little late compared to others in returning, but we've returned, but it's all, you know, very rational, very prudent and, you know, we, we see good volume growth and a good balance between price-mix volume in the back-half of the year for North America.

Q - Chris Carey {BIO 21810941 <GO>}

Okay. Thanks so much.

Operator

Our next question comes from Peter Galbo with Bank of America. Your line is open. Please go ahead.

Q - Peter Galbo {BIO 18820151 <GO>}

Hi guys, good morning. Thanks for taking the question.

A - Steve Cahillane {BIO 4718688 <GO>}

Good morning, Peter.

Q - Peter Galbo {BIO 18820151 <GO>}

Steve -- Steve, maybe in our just continued tour of the world here, having gone through North America and, and Europe. You know, Latin America, I think you, you kind of had more of a standout quarter relative to what some of the peers have said, particularly around maybe, some, some, you know, delay in stimulus payments in Mexico and then also some, some weakness in Brazil. So maybe you can just talk a bit about more specifically the, the Kellanova quarter in Mexico and Brazil and then relative to kind of the macro that you're seeing there on the ground.

A - Steve Cahillane {BIO 4718688 <GO>}

Yes, so it was a good quarter in Latin America. You know, cereal and snacks all growing, Mexico having a, a terrific quarter, you know, kind of record shares in the cereal business in Mexico and Pringles continuing to do extremely well despite being somewhat capacity-constrained because we're sourcing out of Jackson, Tennessee. You know, next year, we'll be sourcing out of Mexico. So really bullish on Pringles future opportunities in Mexico because of local sourcing. Brazil, you have to remember, Brazil was really impacted by some pretty devastating floods, but the underlying business in Brazil remains strong, really driven also by Pringles. Pringles momentum in Brazil is, is, is very, very good. So the Brazilian business is strong, but impacted by, you know, pretty, pretty devastating floods that, that obviously we all saw on the news.

Operator

Our next question comes from Rob Moskow with TD Cowen. Your line is open. Please go ahead.

Q - Rob Moskow {BIO 6299775 <GO>}

Hi, thank you. I was wondering if you could talk about North America price sensitivity in terms of like pack sizes and, and, and the price points. You know, one of your competitors said that, you know, when price points get above a certain level, like above $4, it's -- it's led to consumers actually exiting the category and they've made some pretty substantial changes to adjust to that. Would you agree with that or is it just not really affecting your portfolio? Thanks.

A - Steve Cahillane {BIO 4718688 <GO>}

Yes, Rob, I would agree with that, but I would also say that we've been talking about that for years. But right now, it's more extreme because the consumer is under so much pressure. So, you know, we've always talked about entry price points. We've always talked about price package architecture, you know, going back a number of years, we've been investing in, you know, the capability to have more pack sizes to hit different price points. But I think what you're hearing in, in this environment is perhaps more than in a very long period of time, the absolute dollars are under more pressure. So, you know, the basket that people can fill is, is, is affected obviously by the absolute dollars in their pocket. And as the consumer is so strained, it is, you know, it's become heightened in terms of making sure that you hit those right price points, particularly with consumers under $100,000 in household income with kids, that's where we're seeing the most price sensitivity. And it also -- it, it varies by where you are in the monthly cycle as well. So, you know, we, we look at all of that. It is important -- more important in this environment than perhaps, you know, a more normalized environment.

Q - Rob Moskow {BIO 6299775 <GO>}

And can I ask a follow-up. How meaningful is your, your Pringles launch that's that the mix -- the mixed Pringles launch in the back-half. And what was the -- what was the, the insight that made you think that or that, that coming -- introducing something out-of-the can is going to compete well in that -- in that very competitive marketplace?

A - Steve Cahillane {BIO 4718688 <GO>}

Yes, so, you know, I wouldn't look at Pringles Mingles being a meaningful difference maker in terms of our NSV forecast for the balance of the year because we're only starting to hip it and really will activate it more in the first quarter of next year. The insight is that people love the brand to begin with, we haven't stretched that brand outside the cans, so that's a meaningful innovation. The product is extruded [ph], it is in the shape of a bow tie, Mr. Pringles bowtie. So it plays more on the Mr. P iconography [ph] than it does the can. We believe the product tests extremely well and, you know, Pringles stands for snacking in so many ways. So we're, you know, giving a launch outside the can and we'll see how it goes.

Q - Rob Moskow {BIO 6299775 <GO>}

Great. Thank you.

Operator

We now turn to David Palmer with Evercore ISI. Your line is open. Please go ahead.

Q - David Palmer {BIO 6061984 <GO>}

Thanks. I wanted to just ask a couple of questions on, on North America snacks. You said in your comments, Steve, that there was consumption growth in the quarter, in 2Q, was that, you know, we see consumption being down a bit. I assume maybe there was some growth in Canada or beyond the measured channels that we can't see. Maybe you can comment on that. But more importantly, I'm just wondering in the data that we are going to be tracking, are you expecting a return to at least that low-single digit growth that you were expecting in the beginning of the year for the second-half in, in just the consumption, the MULO+ type stuff that has pretty good coverage. Would you -- would you expect that and, and then would the improvement -- if so, would the improvement be in the areas you were targeting earlier in the year around some of the merchandising and innovation on Cheez-It and Rice Krispie Treats? Thank you.

A - Steve Cahillane {BIO 4718688 <GO>}

Yes, David, thanks for the question. The -- what you're seeing in the measured channels, you hit on it. What you're not seeing is very good growth in Canada and very good growth in our away from home channels. So the non-measured channels performed at a rate that, that led to consumption growth overall in North America. Pringles also, you see doing extremely well, lots and lots of momentum on Pringles. You see that in the measured channels, but it's also the same in the non-measured channels. So all those things together are what's leading to consumption growth. Going forward to your question, we would expect to see improvement in the measured channels as, as I mentioned, you know, you've seen it in Pringles, which was kind of first out of the gate with our investments and with return to full commercial activation. You'll see that with the other big brands. You'll see that with Cheez-It in the back-half of the year as well as Rice Krispies Treats, Pop-Tarts and Eggo. So we would expect the measured channels to start to catch-up to some of the non-measured channels as we, you know, as we get into the second-half of the year and exit the year.

Q - David Palmer {BIO 6061984 <GO>}

Okay. Thank you.

Operator

Our next question comes from Michael Lavery with Piper Sandler. Your line is open. Please go ahead.

Q - Michael Lavery {BIO 20141239 <GO>}

Thank you. Good morning. I just wanted to touch on Nigeria.

A - Steve Cahillane {BIO 4718688 <GO>}

Good morning.

Q - Michael Lavery {BIO 20141239 <GO>}

Yes, thanks. Just wanted to touch on Nigeria. And obviously with the pricing, you know, you've got a big lift, but of course, the currency and volumes are, are a big offset. I know you called out the, the volume momentum, excluding that, but what are you seeing there maybe is sequentially, you know, when could that improve, have you seen any kind of digestion of the pricing that, that the consumers are adjusting and maybe the elasticities are starting to mitigate. I'm just trying to understand, obviously, that's part of your emerging market footprint you call-out as growth drivers that ordinarily wouldn't be kind of a -- a -- a point of stress. When can that turn and really be a proper volume growth driver again?

A - Steve Cahillane {BIO 4718688 <GO>}

Yes. Thanks for the question. The Tolaram JV collectively recorded a volume decline in the high-teens against a price-mix gain of more than 40% year-on-year. So that's obviously hugely substantive. And we've been talking about the elasticities and the fact that elasticities would have to, you know, would have to start to show up and, you know, we're seeing that. We also talked about it being in our forecast for the back-half of the year. We're being very prudent about that. We actually think there might be some upside to that as we, you know, as the price lands, has landed in Africa. But, you know, we'll just have to wait and see. The -- the team is executing very well on-the-ground, but the consumer in Nigeria is under a tremendous amount of strain. You can see that in the headlines. It's in our forecast and, you know, perhaps there may be some upside forecast. I don't know, Amit, do you want to add anything?

A - Amit Banati {BIO 16339861 <GO>}

No, I think the only thing I'd add is that elasticities came in better than expected. So while, you know, the volume declines were in the -- in the teens, it was definitely better than what we had expected in the quarter. I think, you know, we need to continue to take some more pricing in some of our other categories. And so I think, you know, we've assumed that elasticities would be there in the second-half. And, you know, we'll see -- we're encouraged by what we saw in the second-quarter, but, you know, we are being prudent about the rest of the year.

Q - Michael Lavery {BIO 20141239 <GO>}

Okay. Thanks so much.

Operator

We now turn to Thomas Palmer with Citi. Your line is open. Please go ahead.

Q - Thomas Palmer {BIO 18823898 <GO>}

Good morning, and thanks for the question. You indicated that the guidance increase reflects mainly the first-half upside and the second-half expectations were -- were little changed. I wanted to ask on the operating profit. I mean, maybe your expectations were different than consensus estimates, but I think the -- the upside is quite a bit more than consensus estimates had. And just trying to understand if there's any incremental call-outs as we think about the second-half of the year in terms of pressure on that line that -- that maybe right would -- would kind of limit that upside the guidance in terms of how you framed it?

A - Amit Banati {BIO 16339861 <GO>}

No, not really. I mean, you know, I think if you kind of look at -- and we've talked this previously as well, right, the gross margin progression will moderate in the second-half as some of the things that we lapped, you know, start moderating. You know, we obviously had the TSA pass-through last year in quarter four. So, you know, that's -- so we'll be lapping that. I think, you know, the bottlenecks in shortages, which was a big driver of improved gross margin, particularly in quarter one, I think, you know, that's firmly behind us. We saw a little bit of that in quarter two, but it was largely in quarter one. So, you know, you won't add that in the -- in the second-half. And then, you know, the country mix impact driven by, you know, the Naira in Nigeria will also -- you'll start lapping that. If you recall last year, you know, the biggest devaluation in the Naira was kind of around this time, so in quarter three. So, you know, you're going to start lapping that. So, you know, we continue to, you know, we're very pleased with the progress that we're making on the margins. It's coming in better than expected, but, you know, we continue to see progression, but not as much as we saw in the first-half because of some of the items that we are lapping. So I'd say that's probably the biggest driver. You know, brand building, we saw good double-digit increase in the first-half. That's going to moderate in the second-half because if you recall last year in the second-half, we had ramped-up brand building. So, you know, the absolute pressure continues to be very good, but when you look at it versus the ramp-up in the second-half, the growth moderates. So I think those are some of the puts and takes in terms of the second-half operating profit.

Q - Thomas Palmer {BIO 18823898 <GO>}

Okay, thank you. And then on inflation, I think you previously noted you thought it would be pretty neutral for the year. Is this still the expectation and then is there anything to consider in terms of the cadence over the course of 2024 in terms of that range? Thanks.

A - Amit Banati {BIO 16339861 <GO>}

Of course, no real change. I think, you know, that continues to be our outlook to be neutral to slightly inflationary -- inflationary. I think, you know, costs are coming in pretty much as we had expected. Obviously, in Nigeria, you know, we're seeing inflation come through probably at a higher-rate, but, you know, other than that, our costs are coming in pretty much in line with expectations.

Q - Thomas Palmer {BIO 18823898 <GO>}

Thank you.

Operator

Our next question comes from Ken Goldman with JPMorgan. Your line is open. Please go ahead.

Q - Ken Goldman {BIO 15002920 <GO>}

Hi, thank you. I wanted to ask about gross margins. You know, the increases for you are impressive, obviously, and it's a trend we're seeing across the food group in general. But at the same time, we're also increasingly hearing from domestic food retailers, your customers that they're increasingly aware, I guess, of their vendor's gross margin -- gross margin growth, if I can say that, as volumes remain constrained. So I guess the question is, you know, understanding that much of the industry's margin increase is coming from efficiency efforts that should be sticky, you know, how do you think about that balance between inherently wanting to try and drive margins higher and sort of being cognizant of what your customers are saying lately, if that makes sense?

A - Steve Cahillane {BIO 4718688 <GO>}

Yes, thanks for the question, Ken. You know, obviously, we all want to focus on gross margins because it's, you know, it's what drives the health of the business. And we're doing it through productivity. We're doing it by getting back to where we were in some ways because of the bottlenecks and the shortages and we're increasing our brand building investment quite substantially, which really helps, you know, put together winning retail programs. So what we need to do is grow faster than the retailer's same-store sales through great activation, great commercial activation, have the right price point for the consumers. So we meet them where they are, and then you get into a much more constructive dialog with customers versus you know -- you know who is -- who's taking, you know, what share of the pie. And so, yes, we are growing our gross margins, but it's against, you know, a backdrop of where we were and we are increasing our brand-building investments, which helps our customers, you know, drive volume through -- through their outlets. So that's how, you know, that's basically how we would look at that.

Q - Ken Goldman {BIO 15002920 <GO>}

Makes sense. Thank you, Steve.

Operator

We now turn to Alexia Howard with Sanford Bernstein. Your line is open. Please go ahead.

Q - Alexia Howard {BIO 15082983 <GO>}

Good morning, everyone. Can you talk about innovation? Hi, there. Can I just ask about the innovation graph that you put up. Obviously, you're up -- back up to levels that are slightly above where you were in 2021. Are you actually able to give us a number on, you know, percentage of sales coming from new products this year, and perhaps more importantly, are you back up to where you would expect to be long-term or is there another step-up that we -- we might expect over the next year or two? And just as a super quick follow-up, should we expect guidance for 2025 when you report next quarter?

A - Steve Cahillane {BIO 4718688 <GO>}

Yes, thanks, Alexia. So let's -- let's work backwards. We, you know, we always release guidance at our February earnings, and that's what we'll do again this time. In terms of innovation, we don't really release numbers against that, but we are back to where we were pre-pandemic as you saw on the slide. And that's actually going to get better because that, you know, obviously includes a Cheez-It launch, it includes the Pringles Mingles launch and there's a whole host of innovations really by category, by brand group. So it's meaningfully different than it was in the last couple of years back to where we were in '19 and '18. 2019 was the Snap launch, which was a good year for us and we're, you know, we're -- we're beating that. So we feel very good about innovation and we've got a great calendar for next year as well. When we get to February, we'll talk about not only guidance for the year, but we'll give some outlook as to exactly, you know, the innovations that will be launched in -- in '25 as well.

Q - Alexia Howard {BIO 15082983 <GO>}

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

Operator

Our next question comes from Steve Powers with Deutsche Bank. Your line is open. Please go ahead.

Q - Steve Powers {BIO 20734688 <GO>}

Hi, good morning. Hi, Steve, I wanted to follow-up on -- I think it was Chris Carey's question and your response. I think you talked about a -- expecting a good balance of your volume, price and mix in the back-half in North America. And I guess the question is, is that to say that you expect each of those components to be positive in the back-half?

A - Steve Cahillane {BIO 4718688 <GO>}

Yes. No, we don't really get into breaking that down in terms of forecast, but I think we're returning to the type of balance that -- that we seek. And the most important really is getting back to volume because it's -- it's a little bit aberrant when you look at it because of what we're lapping. We're lapping these enormous prices and these declines in volumes. So now we're looking at, you know, better volume and less price. And so when you look at what's lapping, it's -- it's just kind of strange. So we're getting back to volume growth, which I think is going to drive NSV growth and you can kind of back into what that might look like.

Q - Steve Powers {BIO 20734688 <GO>}

Yes. That is good. That is fair.

A - Amit Banati {BIO 16339861 <GO>}

Yes. I think the only thing I'd add is that --

Q - Steve Powers {BIO 20734688 <GO>}

Go ahead. Am --.

A - Amit Banati {BIO 16339861 <GO>}

The only thing I'd add, Steve, yes, when you look at our second-half is that if you exclude Nigeria, where we talked, right, that we expect -- we continue to expect volume declines because of the elasticity and because of the pricing that we're taking. If you exclude that, you know, we pretty much expect, you know, volume growth in most of our -- in all of our other regions other than Nigeria. So I think you should expect that trend to continue for us in the second-half.

Q - Steve Powers {BIO 20734688 <GO>}

Okay. That's that -- that all makes sense. I guess the follow-up though is that, you know, you've had good returns on -- on this sort of return to activation and -- and promotional investment that you've made so-far. But as I'm sure you're aware, you know, a lot of your direct and indirect competitors, some of whom reported today, some of whom reported early this week, some of them reported earlier in the month, all have talked about, you know, kind of incremental step-ups in investment as we go through the back-half. So, you know, and you've talked about the environment as rational, do you -- do you view those comments as rational and amidst, you know, the competitive set arguably leaning in a bit more in the back-half, do you -- do you expect the same kind of return on -- on your run-rate investments?

A - Steve Cahillane {BIO 4718688 <GO>}

Yes. No, I would just reiterate, we do see it as rational. We see, you know, things returning to where they were pre-pandemic, not -- not anything more -- more than that. You know, the things that are going to drive these categories are innovation, brand building, quality display merchandising, all those types of things. You know, we've all been impacted by extraordinary input cost inflation. So we've had to, you know, take a lot of price. The consumers obviously reacted to that. But, you know, a lot of that price discovery has happened. You know, consumers are getting more used to these prices. It doesn't mean they're not still under pressure and that we have to, you know, make sure to some of the earlier conversations, we're hitting the right price points, the right pack sizes, you know, the right promotions at the right time of the month. All those types of things are really quite important. But, you know, brands matter and we have to make sure that we're continuing to invest in our brands and innovation, meeting the consumers where they are. But having said all that, we -- we continue to forecast a rational pricing environment going-forward.

Q - Steve Powers {BIO 20734688 <GO>}

Okay. Very good. Thanks so much. Appreciate it.

A - John Renwick {BIO 19769692 <GO>}

I think we probably have time for one more question, operator.

Operator

Our last question comes from Max Gumport with BNP Paribas. Your line is open. Please go ahead.

Q - Max Gumport {BIO 21236637 <GO>}

Hi, thanks for the question. Just wanted to follow-up on the -- the last one there and get a better sense for should we expect or why do you not think your business needs more price investment given what we're hearing from all of your competitors, particularly competitors in your near -- near-end categories within snacking. It feels like we're hearing more-and-more about these companies saying that the consumer needs some pricing give back. It feels like retailers are saying the same. Just want to make-- make sure I understand why -- why your -- own business doesn't need that? Thank you.

A - Steve Cahillane {BIO 4718688 <GO>}

Yes, Max, I just point you to, we had a terrific second quarter. We raised our guidance. We've got great confidence. You can't speak to where everybody else is, but we feel very, very good about where we are. We feel good about our innovations. We feel good about the return we're getting from our brand building. We feel good about our geographic portfolio. And I hope that you heard that come through in not only the results, but the outlook. And so I'd just point you right to there and say, we don't feel like we're missing anything. We don't feel like we, you know, need to do anything on the pricing front that we're not already doing that you haven't seen. Because again, you know, we -- here we are today announcing good results, very good results and raising guidance. So, I just, you know, I just would end it with that.

Q - Max Gumport {BIO 21236637 <GO>}

Great. Thanks very much.

A - John Renwick {BIO 19769692 <GO>}

Maybe one more.

Operator

Yes, we have a question from Andrew Lazar with Barclays. Your line is open. Please go ahead.

Q - Andrew Lazar {BIO 1973907 <GO>}

Great. Just a super quick one. You know, Steve, with all of the activation, commercial activation back up to more normal levels, we're hearing a lot of that about more normal levels of promotional activity from peers as well. It's all off of obviously much higher list pricing. So promoted price points are still quite a bit higher. So I'm just curious what you're seeing around lift on promotional activity, if it's kind of where you have always seen it? Is it better, worse or how that's trending? That's it. Thanks so much.

A - Steve Cahillane {BIO 4718688 <GO>}

You know, great question, Andrew. I'd say, if you go back at the beginning of the year and the end of last year, the lists were not great because I think the price discovery was still happening as you point out the higher list prices. We're starting to see that improve. And so sequentially, week-in and week-out, the investments that we're making are seeing a better return. And that's part of our confidence in the back-half of the year and the next year that, you know, the right level of investment will start to yield the type of returns that we saw pre-pandemic.

Q - Andrew Lazar {BIO 1973907 <GO>}

Thanks so much.

Operator

This concludes our Q&A. I'll now hand back to John Renwick for closing remarks.

A - John Renwick {BIO 19769692 <GO>}

Okay. Well, thank you everyone for your interest and your time. And if you do have follow-up questions, please do not hesitate to call us. Have a great day.

Operator

Ladies and gentlemen, today's call has now concluded. We'd like to thank you for your participation. You may now disconnect your lines.