JUN 22
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Kellogg moves away from the cereal category to focus on boosting high-margin snack business

Article

The news: **Kellogg Company** will spin off its North American cereal business and plant-based brands into separate entities to focus on higher-margin snack food and international ventures, per a press release.

The rationale: Kellogg Co. claimed the split will let each company "pursue their particular strategic priorities" and operate with more flexibility and agility. But it's also an opportunity for Kellogg Co. to separate its less profitable brands from the company's fast-growing, higher-margin snack business.

- **Plant-based and North American cereal brands made up roughly 20% of Kellogg Co's net sales last year**—generating an estimated $300 million in EBITDA, compared with the snack segment's $2.0 billion.
- The company said focusing on snacks and its international business will enable it to achieve higher growth and profit margins than in its current form.

Consumers get the munchies: While demand for certain grocery categories—including cereal and frozen foods—has dipped as consumers return to pre-pandemic habits, snack sales are unflagging.

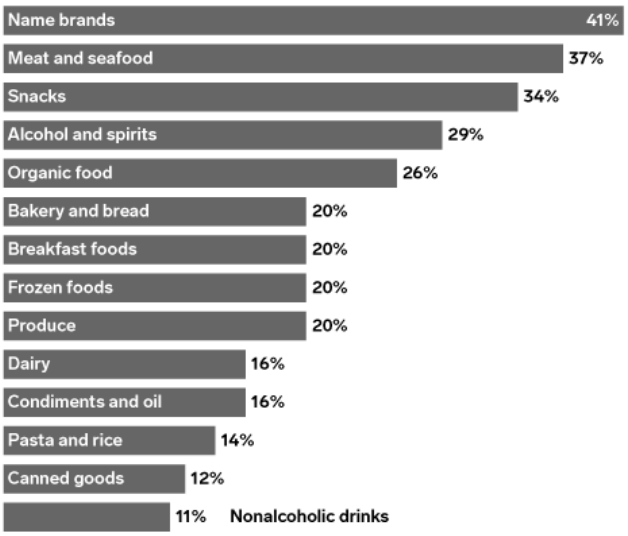
- Kellogg Co. said North American snack sales rose 5% YoY in Q1, compared with a 10.3% contraction in cereal sales and a 2.2% drop in frozen foods sales.
- **Mondelez International**, which owns Oreo, Cadbury, Ritz Crackers, and other snack food staples, reported a 7.3% year-over-year (YoY) revenue increase in Q1 2022.

But higher prices are fueling a significant portion of that growth: Mondelez, Kellogg Co., **General Mills**, and other packaged food companies are passing on higher commodity costs to consumers, resulting in higher sales—but not necessarily volume.

Appetites might change: As inflation weighs on consumers' grocery bills, many are trying to curb unnecessary spending.

- More than half (**57%**) of US consumers said they've **cut back on nonessential items like candy and snacks**, per 84.51°, **Kroger's** data science division.
- Faced with higher prices, consumers are turning to private-label brands to save money.
- That bodes ill for Kellogg Co.'s cereal business, which will have even less ability to withstand higher costs once it can no longer rely on support from higher-margin product lines.

Grocery Products US Adults Are Cutting Back on Due to Inflation, by Category, April 2022
% of respondents



Source: First Insight, "The State of Consumer Spending: Inflation Impacting Consumer Confidence," May 5, 2022

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Looking ahead: Splitting Kellogg Co. up might be the best path forward to return value to shareholders and grow the company's snack business, but its other two ventures will suffer without access to the larger corporation's resources.

- Kellogg Co.'s cereal division is still dealing with the fallout from a factory fire and labor strikes, which affected its ability to get products to consumers and cost the company market share.
- The new plant-based company will also contend with diminished market share and slowing growth as competitors like **Beyond Meat** and **Impossible Foods** make inroads with consumers.