

Kellanova

4Q23 beat on better sales, margins, tax; FY24 outlook largely reiterated

Maintain Rating: NEUTRAL | PO: 60.00 USD | Price: 53.69 USD

4Q23 adjusted EPS of \$0.78 vs BofAe \$0.74

This morning, K reported 4Q23 adjusted EPS of \$0.78 (it's first quarter post spin of KLG), above our estimate of \$0.74 and consensus of \$0.75. EPS upside was driven by better sales, margins, and a lower tax rate. Sales saw upside across all segments while operating profit was better in North America and AMEA and lower in Europe and Latin America. K also revised its FY24 outlook, now expecting organic sales growth of 3%+ (lower end of its prior sales guide of \$13.4-13.6bn) but both its operating profit and EPS outlook remain unchanged. Our view, positioning had been short into the print and today's results are likely a relief for shares given reiteration of 2024 operating results.

Key takeaways from press release

1) Net sales of \$3.17bn beat our forecast of \$3.07bn. Total organic sales growth of +6.9% came higher than our forecast of +0.7% with upside to price/mix (+8.1% vs our estimate of +7.1%) and to volumes (-1.2% vs our estimate of -6.4%). 2) Adjusted gross margins of 33.9% beat our estimate by 80bps. 3) Adjusted operating income of \$392mm was above our estimate of \$383mm. 4) Below the line: tax rate came in lower and contributed \$0.02 to the beat.

FY24 outlook revised; op profit and EPS guide unchanged

K revised its FY24 guidance initially introduced at its Investor Day in Aug 2023. K forecasts 1) organic net sales to grow 3%+ (lower end of its prior sales guide of \$13.4-\$13.6bn, but also not adjusted for FX). 2) Operating profit of \$1.85-\$1.90bn (unchanged). Operating profit margin is now expected to be 14%+ in FY24 and 15% by FY26. 3) Adj. EPS of \$3.55-\$3.65 (unchanged and in-line with BofAe). 1) operating cash flow of \$1.7bn (prior \$1.6-\$1.7bn), 2) capex of \$700mm (prior \$600-\$700mm), 3) cash flow of ~\$1bn (unchanged).

Maintain Neutral & \$60 PO

We maintain our Neutral rating & \$60 based on 16x our CY25 EPS estimate. This is a premium to center store packaged food peers and a discount to pure play snacking companies. In our view this is appropriate given its sales mix is 60% snacks.

08 February 2024

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Stock Data

Price	53.69 USD
Price Objective	60.00 USD
Date Established	15-Dec-2023
Investment Opinion	A-2-7
52-Week Range	47.63 USD - 67.84 USD
Mrkt Val (mn) / Shares Out (mn)	18,523 USD / 345.0
Free Float	77.9%
Average Daily Value (mn)	142.17 USD
BofA Ticker / Exchange	K / NYS
Bloomberg / Reuters	K US / K.N
ROE (2023E)	31.5%
Net Dbt to Eqty (Dec-2022A)	132.5%
ESGMeter™	High

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Timestamp: 08 February 2024 09:05AM EST

Variance table

Exhibit 1: K summary variance table (\$ in mms)

4Q adj EPS of \$0.78 was above our \$0.74

K 4Q23	4Q23A	4Q23E	A vs. E	Per Share	4Q22A	% Chg
Income Statement						
Net Sales	\$3,173.5	\$3,074.0	\$99.5	\$0.29	\$3,163.6	0.3%
Cost Of Goods Sold	\$2,097.7	\$2,056.5	\$41.2	\$0.12	\$2,628.0	-20.2%
Gross Profit	\$1,075.8	\$1,017.5	\$58.3	\$0.17	\$535.6	100.9%
Gross Margin	33.9%	33.1%	bps		16.9%	
SG&A	\$684.0	\$634.5	\$49.5	\$0.14	\$783.5	-12.7%
SG&A % of sales	21.6%	20.6%	bps		24.8%	
Operating Profit	\$391.8	\$383.0	\$8.8	\$0.03	(\$247.9)	-258.0%
Operating Margin	12.3%	12.5%	bps		-7.8%	
Net Interest Expense	\$85.0	\$85.0	\$0.0	\$0.00	\$69.0	23.2%
Other income (expense), net	\$25.0	\$25.0	\$0.0	\$0.00	\$53.0	-52.8%
Income Before Taxes	\$331.8	\$323.0	\$8.8	\$0.03	(\$263.9)	-225.7%
Income Taxes	\$63.0	\$70.7	(\$7.7)	(\$0.02)	\$89.0	-29.2%
Effective Tax Rate	19.0%	21.9%	bps		-33.7%	
Earnings (loss) from unconsolidated entities	\$2.0	\$3.0	(\$1.0)	(\$0.00)	\$3.4	-41.2%
NCI	\$3.0	\$0.0	\$3.0	\$0.01	-\$2.5	-220.0%
Adj. Net income	\$267.8	\$255.3	\$12.5		(\$347.0)	-177.2%
Adj. EPS	\$0.78	\$0.74	\$0.04		(\$1.01)	-177.2%
Shares Outstanding	344.0	345.0	-1.0		344.0	0.0%
Segments						
Sales						
North America	\$1,588.0	\$1,554.2	\$33.8		\$1,601.0	-0.8%
Europe	\$613.0	\$594.7	\$18.3		\$561.0	9.3%
Latin America	\$328.0	\$301.3	\$26.7		\$288.0	13.9%
AMEA	\$645.0	\$623.8	\$21.2		\$717.0	-10.0%
Corporate	(\$0.5)	\$0.0	(\$0.5)		(\$3.4)	-85.3%
Total Sales	\$3,173.5	\$3,074.0	\$99.5		\$3,163.6	0.3%
Operating Profit						
North America	\$299.0	\$287.5	\$11.5		\$355.0	-15.8%
Europe	\$64.0	\$72.0	(\$8.0)		\$49.0	30.6%
Latin America	\$35.0	\$42.2	(\$7.2)		\$42.0	-16.7%
AMEA	\$66.5	\$62.4	\$4.1		\$61.3	8.6%
Corporate	(\$72.5)	(\$81.5)	\$9.0		(\$86.0)	-15.7%
Total Operating Profit	\$392.0	\$382.6	\$9.4		\$421.3	-6.9%

Source: K, BofA Global Research estimates

BofA GLOBAL RESEARCH

Price objective basis & risk

Kellanova (K)

Our price objective of \$60 is based on 16x our CY25 EPS estimate. This is a premium to center store packaged food peers and a discount to pure play snacking companies. In our view this is appropriate given its sales mix is 60% snacks.

Upside risks are: 1) Snacks portfolio growth accelerates given the more focused portfolio and strategy 2) Margins expand ahead of expectations on over delivery of productivity and sales leverage and 3)

Downside risks are: 1) Non-snacks drags growth more than expected 2) Investor sentiment weakens on the growth prospects for snacking 3) greater than expected trade down to private label in developed markets, and 4) inflation to taper slower than expected and pressuring margins.

Analyst Certification

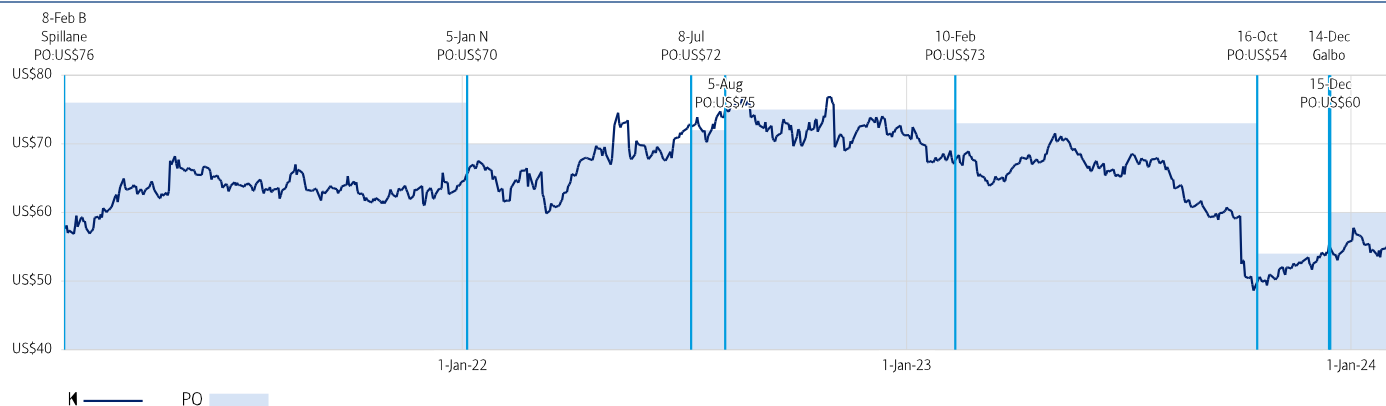
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Kellanova (K) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	33	49.25%	Buy	16	48.48%
Hold	17	25.37%	Hold	10	58.82%
Sell	17	25.37%	Sell	8	47.06%

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Buy	1895	53.62%	Buy	1083	57.15%
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Sell	807	22.84%	Sell	383	47.46%

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Underperform	N/A	≥ 20%

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