

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 24, 2022

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-37482

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**The Kraft Heinz Company**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**One PPG Place, Pittsburgh, Pennsylvania**

(Address of principal executive offices)

**46-2078182**

(I.R.S. Employer Identification No.)

**15222**

(Zip Code)

**(412) 456-5700**

(Registrant's telephone number, including area code)

**Not Applicable**

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act

Title of each class  
Common stock, \$0.01 par value

Trading Symbol(s)  
KHC

Name of each exchange on which registered  
The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>	
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>	Emerging growth company <input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of October 22, 2022, there were 1,224,930,164 shares of the registrant's common stock outstanding.

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Unless the context otherwise requires, the terms "we," "us," "our," "Kraft Heinz," and the "Company" each refer to The Kraft Heinz Company and all of its consolidated subsidiaries.

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## Forward-Looking Statements

This Quarterly Report on Form 10-Q contains a number of forward-looking statements. Words such as “anticipate,” “reflect,” “invest,” “see,” “make,” “expect,” “give,” “deliver,” “drive,” “believe,” “improve,” “assess,” “reassess,” “remain,” “evaluate,” “grow,” “will,” “plan,” “intend,” and variations of such words and similar future or conditional expressions are intended to identify forward-looking statements. These forward-looking statements include, but are not limited to, statements regarding our plans, impacts of accounting standards and guidance, growth, legal matters, taxes, costs and cost savings, impairments, and dividends. These forward-looking statements reflect management’s current expectations and are not guarantees of future performance and are subject to a number of risks and uncertainties, many of which are difficult to predict and beyond our control.

Important factors that may affect our business and operations and that may cause actual results to differ materially from those in the forward-looking statements include, but are not limited to, the impacts of COVID-19 and government and consumer responses; operating in a highly competitive industry; our ability to correctly predict, identify, and interpret changes in consumer preferences and demand, to offer new products to meet those changes, and to respond to competitive innovation; changes in the retail landscape or the loss of key retail customers; changes in our relationships with significant customers or suppliers, or in other business relationships; our ability to maintain, extend, and expand our reputation and brand image; our ability to leverage our brand value to compete against private label products; our ability to drive revenue growth in our key product categories or platforms, increase our market share, or add products that are in faster-growing and more profitable categories; product recalls or other product liability claims; climate change and legal or regulatory responses; our ability to identify, complete, or realize the benefits from strategic acquisitions, alliances, divestitures, joint ventures, or other investments; our ability to successfully execute our strategic initiatives; the impacts of our international operations; our ability to protect intellectual property rights; our ownership structure; our ability to realize the anticipated benefits from prior or future streamlining actions to reduce fixed costs, simplify or improve processes, and improve our competitiveness; our level of indebtedness, as well as our ability to comply with covenants under our debt instruments; additional impairments of the carrying amounts of goodwill or other indefinite-lived intangible assets; foreign exchange rate fluctuations; volatility in commodity, energy, and other input costs; volatility in the market value of all or a portion of the commodity derivatives we use; compliance with laws and regulations and related legal claims or regulatory enforcement actions; failure to maintain an effective system of internal controls; a downgrade in our credit rating; the impact of future sales of our common stock in the public market; our ability to continue to pay a regular dividend and the amounts of any such dividends; unanticipated business disruptions and natural events in the locations in which we or our customers, suppliers, distributors, or regulators operate; economic and political conditions in the United States and in various other nations where we do business (including inflationary pressures, general economic slowdown, or recession and the Russia and Ukraine conflict and its regional and global ramifications); changes in our management team or other key personnel and our ability to hire or retain key personnel or a highly skilled and diverse global workforce; risks associated with information technology and systems, including service interruptions, misappropriation of data, or breaches of security; increased pension, labor, and people-related expenses; changes in tax laws and interpretations; volatility of capital markets and other macroeconomic factors; and other factors. For additional information on these and other factors that could affect our forward-looking statements, see Item 1A, *Risk Factors*, in our Annual Report on Form 10-K for the year ended December 25, 2021. We disclaim and do not undertake any obligation to update, revise, or withdraw any forward-looking statement in this report, except as required by applicable law or regulation.

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# PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements.

### The Kraft Heinz Company Condensed Consolidated Statements of Income (in millions, except per share data) (Unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	September 24, 2022	September 25, 2021	September 24, 2022	September 25, 2021
Net sales	\$ 6,505	\$ 6,324	\$ 19,104	\$ 19,333
Cost of products sold	4,662	4,296	13,346	12,813
Gross profit	1,843	2,028	5,758	6,520
Selling, general and administrative expenses, excluding impairment losses	798	872	2,437	2,697
Goodwill impairment losses	220	—	444	265
Intangible asset impairment losses	74	—	469	78
Selling, general and administrative expenses	1,092	872	3,350	3,040
Operating income/(loss)	751	1,156	2,408	3,480
Interest expense	228	415	704	1,443
Other expense/(income)	(22)	(138)	(211)	(191)
Income/(loss) before income taxes	545	879	1,915	2,228
Provision for/(benefit from) income taxes	110	143	434	949
Net income/(loss)	435	736	1,481	1,279
Net income/(loss) attributable to noncontrolling interest	3	3	8	10
Net income/(loss) attributable to common shareholders	\$ 432	\$ 733	\$ 1,473	\$ 1,269
Per share data applicable to common shareholders:				
Basic earnings/(loss)	\$ 0.35	\$ 0.60	\$ 1.20	\$ 1.04
Diluted earnings/(loss)	0.35	0.59	1.19	1.03

See accompanying notes to the condensed consolidated financial statements.

The Kraft Heinz Company  
Condensed Consolidated Statements of Comprehensive Income  
(in millions)  
(Unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	September 24, 2022	September 25, 2021	September 24, 2022	September 25, 2021
Net income/(loss)	\$ 435	\$ 736	\$ 1,481	\$ 1,279
Other comprehensive income/(loss), net of tax:				
Foreign currency translation adjustments	(816)	(237)	(1,500)	12
Net deferred gains/(losses) on net investment hedges	324	96	581	52
Amounts excluded from the effectiveness assessment of net investment hedges	8	4	26	14
Net deferred losses/(gains) on net investment hedges reclassified to net income/(loss)	(10)	(3)	(23)	(9)
Net deferred gains/(losses) on cash flow hedges	(29)	(6)	(101)	(70)
Amounts excluded from the effectiveness assessment of cash flow hedges	1	7	9	21
Net deferred losses/(gains) on cash flow hedges reclassified to net income/(loss)	48	22	97	48
Net actuarial gains/(losses) arising during the period	(117)	(15)	(260)	58
Net postemployment benefit losses/(gains) reclassified to net income/(loss)	(4)	(5)	(15)	(18)
Total other comprehensive income/(loss)	(595)	(137)	(1,186)	108
Total comprehensive income/(loss)	(160)	599	295	1,387
Comprehensive income/(loss) attributable to noncontrolling interest	2	4	2	9
Comprehensive income/(loss) attributable to common shareholders	\$ (162)	\$ 595	\$ 293	\$ 1,378

See accompanying notes to the condensed consolidated financial statements.

The Kraft Heinz Company  
Condensed Consolidated Balance Sheets  
(in millions, except per share data)  
(Unaudited)

	September 24, 2022	December 25, 2021
<b>ASSETS</b>		
Cash and cash equivalents	\$ 997	\$ 3,445
Trade receivables (net of allowances of \$52 at September 24, 2022 and \$48 at December 25, 2021)	2,055	1,957
Inventories	3,535	2,729
Prepaid expenses	224	136
Other current assets	954	716
Assets held for sale	95	11
Total current assets	7,860	8,994
Property, plant and equipment, net	6,417	6,806
Goodwill	30,574	31,296
Intangible assets, net	42,354	43,542
Other non-current assets	2,787	2,756
<b>TOTAL ASSETS</b>	<b>\$ 89,992</b>	<b>\$ 93,394</b>
<b>LIABILITIES AND EQUITY</b>		
Commercial paper and other short-term debt	\$ 4	\$ 14
Current portion of long-term debt	770	740
Trade payables	4,733	4,753
Accrued marketing	811	804
Interest payable	255	268
Other current liabilities	2,113	2,485
Total current liabilities	8,686	9,064
Long-term debt	19,296	21,061
Deferred income taxes	10,285	10,536
Accrued postemployment costs	194	205
Long-term deferred income	1,490	1,534
Other non-current liabilities	1,698	1,542
<b>TOTAL LIABILITIES</b>	<b>41,649</b>	<b>43,942</b>
Commitments and Contingencies (Note 14)		
Redeemable noncontrolling interest	37	4
Equity:		
Common stock, \$0.01 par value (5,000 shares authorized; 1,242 shares issued and 1,227 shares outstanding at September 24, 2022; 1,235 shares issued and 1,224 shares outstanding at December 25, 2021)	12	12
Additional paid-in capital	52,077	53,379
Retained earnings/(deficit)	(208)	(1,682)
Accumulated other comprehensive income/(losses)	(3,004)	(1,824)
Treasury stock, at cost (15 shares at September 24, 2022 and 11 shares at December 25, 2021)	(729)	(587)
Total shareholders' equity	48,148	49,298
Noncontrolling interest	158	150
<b>TOTAL EQUITY</b>	<b>48,306</b>	<b>49,448</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 89,992</b>	<b>\$ 93,394</b>

See accompanying notes to the condensed consolidated financial statements.

The Kraft Heinz Company  
Condensed Consolidated Statements of Equity  
(in millions)  
(Unaudited)

	Common Stock	Additional Paid-in Capital	Retained Earnings/(Deficit)	Accumulated Other Comprehensive Income/(Losses)	Treasury Stock, at Cost	Noncontrolling Interest	Total Equity
<b>Balance at December 25, 2021</b>	\$ 12	\$ 53,379	\$ (1,682)	\$ (1,824)	\$ (587)	\$ 150	\$ 49,448
Net income/(loss) excluding redeemable noncontrolling interest	—	—	776	—	—	4	780
Other comprehensive income/(loss)	—	—	—	12	—	(1)	11
Dividends declared-common stock (\$0.40 per share)	—	(492)	—	—	—	—	(492)
Exercise of stock options, issuance of other stock awards, and other	—	67	1	—	(18)	—	50
<b>Balance at March 26, 2022</b>	\$ 12	\$ 52,954	\$ (905)	\$ (1,812)	\$ (605)	\$ 153	\$ 49,797
Net income/(loss) excluding redeemable noncontrolling interest	—	—	265	—	—	2	267
Other comprehensive income/(loss)	—	—	—	(598)	—	(4)	(602)
Dividends declared-common stock (\$0.40 per share)	—	(494)	—	—	—	—	(494)
Exercise of stock options, issuance of other stock awards, and other	—	60	—	—	(81)	15	(6)
<b>Balance at June 25, 2022</b>	\$ 12	\$ 52,520	\$ (640)	\$ (2,410)	\$ (686)	\$ 166	\$ 48,962
Net income/(loss) excluding redeemable noncontrolling interest	—	—	432	—	—	4	436
Other comprehensive income/(loss)	—	—	—	(594)	—	(1)	(595)
Dividends declared-common stock (\$0.40 per share)	—	(494)	—	—	—	—	(494)
Exercise of stock options, issuance of other stock awards, and other	—	51	—	—	(43)	(11)	(3)
<b>Balance at September 24, 2022</b>	<u>\$ 12</u>	<u>\$ 52,077</u>	<u>\$ (208)</u>	<u>\$ (3,004)</u>	<u>\$ (729)</u>	<u>\$ 158</u>	<u>\$ 48,306</u>



	Common Stock	Additional Paid-in Capital	Retained Earnings/(Deficit)	Accumulated Other Comprehensive Income/(Losses)	Treasury Stock, at Cost	Noncontrolling Interest	Total Equity
<b>Balance at December 26, 2020</b>	\$ 12	\$ 55,096	\$ (2,694)	\$ (1,967)	\$ (344)	\$ 140	\$ 50,243
Net income/(loss)	—	—	563	—	—	5	568
Other comprehensive income/(loss)	—	—	—	69	—	(2)	67
Dividends declared-common stock (\$0.40 per share)	—	(495)	—	—	—	—	(495)
Exercise of stock options, issuance of other stock awards, and other	—	77	—	—	(29)	—	48
<b>Balance at March 27, 2021</b>	\$ 12	\$ 54,678	\$ (2,131)	\$ (1,898)	\$ (373)	\$ 143	\$ 50,431
Net income/(loss)	—	—	(27)	—	—	2	(25)
Other comprehensive income/(loss)	—	—	—	178	—	—	178
Dividends declared-common stock (\$0.40 per share)	—	(495)	—	—	—	—	(495)
Exercise of stock options, issuance of other stock awards, and other	—	72	—	—	(19)	—	53
<b>Balance at June 26, 2021</b>	\$ 12	\$ 54,255	\$ (2,158)	\$ (1,720)	\$ (392)	\$ 145	\$ 50,142
Net income/(loss)	—	—	733	—	—	3	736
Other comprehensive income/(loss)	—	—	—	(138)	—	1	(137)
Dividends declared-common stock (\$0.40 per share)	—	(495)	—	—	—	—	(495)
Exercise of stock options, issuance of other stock awards, and other	—	63	—	—	(71)	—	(8)
<b>Balance at September 25, 2021</b>	<u>\$ 12</u>	<u>\$ 53,823</u>	<u>\$ (1,425)</u>	<u>\$ (1,858)</u>	<u>\$ (463)</u>	<u>\$ 149</u>	<u>\$ 50,238</u>

See accompanying notes to the condensed consolidated financial statements.

The Kraft Heinz Company  
Condensed Consolidated Statements of Cash Flows  
(in millions)  
(Unaudited)

	For the Nine Months Ended	
	September 24, 2022	September 25, 2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income/(loss)	\$ 1,481	\$ 1,279
Adjustments to reconcile net income/(loss) to operating cash flows:		
Depreciation and amortization	685	677
Amortization of postemployment benefit plans prior service costs/(credits)	(11)	(5)
Divestiture-related license income	(41)	—
Equity award compensation expense	107	155
Deferred income tax provision/(benefit)	(184)	(120)
Postemployment benefit plan contributions	(14)	(21)
Goodwill and intangible asset impairment losses	913	343
Nonmonetary currency devaluation	16	4
Loss/(gain) on sale of business	(1)	(11)
Loss/(gain) on extinguishment of debt	(12)	571
Other items, net	6	(150)
Changes in current assets and liabilities:		
Trade receivables	(208)	92
Inventories	(1,027)	(264)
Accounts payable	299	194
Other current assets	(136)	(96)
Other current liabilities	(356)	(200)
Net cash provided by/(used for) operating activities	1,517	2,448
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(632)	(655)
Payments to acquire business, net of cash acquired	(481)	—
Proceeds from sale of business, net of cash disposed and working capital adjustments	(20)	3,401
Other investing activities, net	95	(2)
Net cash provided by/(used for) investing activities	(1,038)	2,744
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayments of long-term debt	(1,157)	(4,145)
Debt prepayment and extinguishment costs	(17)	(577)
Proceeds from issuance of commercial paper	228	—
Repayments of commercial paper	(228)	—
Dividends paid	(1,470)	(1,469)
Other financing activities, net	(167)	(142)
Net cash provided by/(used for) financing activities	(2,811)	(6,333)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(116)	(3)
Cash, cash equivalents, and restricted cash		
Net increase/(decrease)	(2,448)	(1,144)
Balance at beginning of period	3,446	3,418
Balance at end of period	\$ 998	\$ 2,274

See accompanying notes to the condensed consolidated financial statements.

The Kraft Heinz Company  
Notes to Condensed Consolidated Financial Statements

**Note 1. Basis of Presentation**

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") have been omitted, in accordance with the rules of the Securities and Exchange Commission (the "SEC"). In management's opinion, these interim financial statements include all adjustments (consisting only of normal recurring adjustments) and accruals necessary to fairly state our results for the periods presented.

We operate on a 52- or 53-week fiscal year ending on the last Saturday in December in each calendar year. Unless the context requires otherwise, references to years and quarters contained herein pertain to our fiscal years and fiscal quarters. Our 2022 fiscal year is scheduled to be a 53-week period ending on December 31, 2022, and our 2021 fiscal year was a 52-week period that ended on December 25, 2021.

The condensed consolidated balance sheet data at December 25, 2021 was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. These statements should be read in conjunction with our audited consolidated financial statements and related notes in our Annual Report on Form 10-K for the year ended December 25, 2021. The results for interim periods are not necessarily indicative of future or annual results.

**Principles of Consolidation**

The condensed consolidated financial statements include The Kraft Heinz Company and all of our controlled subsidiaries. All intercompany transactions are eliminated.

**Reportable Segments**

In the second quarter of 2022, our internal reporting and reportable segments changed. We combined our United States and Canada zones to form the North America zone as a result of previously announced organizational changes, which are intended to advance and support our long-term growth plans by streamlining and synergizing our United States and Canada businesses. Subsequently, we manage and report our operating results through two reportable segments defined by geographic region: North America and International. We have reflected this change in all historical periods presented.

**Use of Estimates**

We prepare our condensed consolidated financial statements in accordance with U.S. GAAP, which requires us to make accounting policy elections, estimates, and assumptions that affect the reported amount of assets, liabilities, reserves, and expenses. These accounting policy elections, estimates, and assumptions are based on our best estimates and judgments. We evaluate our policy elections, estimates, and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment. We believe these estimates to be reasonable given the current facts available. We adjust our policy elections, estimates, and assumptions when facts and circumstances dictate. Market volatility, including foreign currency exchange rates, increases the uncertainty inherent in our estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ significantly from estimates. If actual amounts differ from estimates, we include the revisions in our consolidated results of operations in the period the actual amounts become known. Historically, the aggregate differences, if any, between our estimates and actual amounts in any year have not had a material effect on our condensed consolidated financial statements.

**Reclassifications**

We made reclassifications and adjustments to certain previously reported financial information to conform to our current period presentation.

**Held for Sale**

At September 24, 2022, we classified certain assets as held for sale in our condensed consolidated balance sheet, primarily relating to the divestiture of our powdered cheese business in our North America segment, inventory in our International segment, and certain manufacturing equipment and land use rights across the globe. At December 25, 2021, we classified certain assets as held for sale in our condensed consolidated balance sheet, including inventory in our International segment and certain manufacturing equipment and land use rights across the globe. See Note 4, *Acquisitions and Divestitures*, for additional information.

## **Cash, Cash Equivalents, and Restricted Cash**

Cash equivalents include term deposits with banks, money market funds, and all highly liquid investments with original maturities of three months or less. The fair value of cash equivalents approximates the carrying amount. Cash and cash equivalents that are legally restricted as to withdrawal or usage are classified in other current assets or other non-current assets, as applicable, on the condensed consolidated balance sheets. Restricted cash recorded in other non-current assets was \$1 million at September 24, 2022 and \$1 million at December 25, 2021. Total cash, cash equivalents, and restricted cash was \$998 million at September 24, 2022 and \$3,446 million at December 25, 2021.

## **Note 2. Significant Accounting Policies**

There were no significant changes to our accounting policies from those disclosed in our Annual Report on Form 10-K for the year ended December 25, 2021.

## **Note 3. New Accounting Standards**

### **Accounting Standards Not Yet Adopted**

#### ***Accounting for Contract Assets and Contract Liabilities from Contracts with Customers:***

In October 2021, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) 2021-08 to amend the accounting for contract assets and contract liabilities acquired in a business combination under Accounting Standards Codification (“ASC”) 805, *Business Combinations*. The guidance requires entities engaged in a business combination to recognize and measure contract assets acquired and contract liabilities assumed in accordance with ASC 606, *Revenue from Contracts with Customers*, rather than at fair value on the acquisition date. The amendments also apply to other contracts such as contract liabilities arising from nonfinancial assets under ASC 610-20, *Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets*. The ASU will be effective beginning in the first quarter of 2023. Early adoption is permitted, including in an interim period. We currently expect to adopt ASU 2021-08 in the first quarter of 2023 on a prospective basis. While the impact of these amendments is dependent on the nature of any future transactions, we currently do not expect this ASU to have a significant impact on our financial statements and related disclosures.

#### ***Reference Rate Reform (Topic 848) - Facilitation of the Effects of Reference Rate Reform on Financial Reporting:***

In March 2020, the FASB issued ASU 2020-04 to provide temporary optional expedients and exceptions to the U.S. GAAP guidance for accounting for contracts, hedging relationships, and other transactions affected by the transition from discontinued reference rates, such as the London Interbank Offered Rate (LIBOR), to alternative reference rates. The new accounting requirements can be applied from March 12, 2020 through December 31, 2022. While we currently do not expect this new guidance to have a significant impact on our financial statements or related disclosures, we continue to evaluate our contracts and the optional expedients provided by the new standard.

#### ***Supplier Finance Programs (Topic 405-50) - Disclosure of Supplier Finance Program Obligations:***

In September 2022, the FASB issued ASU 2022-04 to add disclosure requirements relative to supplier financing programs under ASC 405, *Liabilities*. The guidance requires entities that maintain supplier financing programs to provide information in their financial statements about their use of supplier finance programs and their effect on the entity’s working capital, liquidity, and cash flows. Specifically, the amendment requires entities to disclose the key terms of their programs, amounts outstanding, balance sheet presentation, and a rollforward of amounts outstanding during the annual period. Only the amount outstanding at the end of the period is required to be disclosed in interim periods. The ASU will be effective beginning in the first quarter of 2023, except for the rollforward requirement, which is effective in fiscal year 2024. Early adoption is permitted. While we currently disclose the amounts outstanding on our existing Trade Payables Programs, we are currently reviewing the provisions of this new pronouncement but do not expect this ASU to have a significant impact on our financial statements and related disclosures.

## **Note 4. Acquisitions and Divestitures**

### **Acquisitions**

#### ***Hemmer Acquisition:***

On March 31, 2022 (the “Hemmer Acquisition Date”), we acquired a majority of the outstanding equity interests of Companhia Hemmer Indústria e Comércio (“Hemmer”), a Brazilian food and beverage manufacturing company focused on the condiments and sauces category, from certain third-party shareholders (the “Hemmer Acquisition”).

The Hemmer Acquisition was accounted for under the acquisition method of accounting for business combinations. Total cash consideration related to the Hemmer Acquisition was approximately 1.3 billion Brazilian reais (approximately \$279 million at the Hemmer Acquisition Date). A noncontrolling interest was recognized at fair value, which was determined to be the noncontrolling interest's proportionate share of the acquiree's identifiable net assets, as of the Hemmer Acquisition Date. As of the Hemmer Acquisition Date, we acquired 94% of the outstanding shares of Hemmer. In the third quarter of 2022, we completed the redemption of the remaining outstanding shares and own 100% of the controlling interest in Hemmer.

We entered into foreign exchange derivative contracts to economically hedge the foreign currency exposure related to the cash consideration for the Hemmer Acquisition. See Note 11, *Financial Instruments*, for additional information.

We utilized fair values at the Hemmer Acquisition Date to allocate the total consideration exchanged to the net tangible and intangible assets acquired and liabilities assumed.

The fair value estimates of the assets acquired are subject to adjustment during the measurement period (up to one year from the Hemmer Acquisition Date). The primary areas of accounting for the Hemmer Acquisition that are not yet finalized relate to the fair value of certain tangible net assets acquired, residual goodwill, and any related tax impact. The fair values of these net assets acquired are based on management's estimates and assumptions, as well as other information compiled by management, including valuations that utilize customary valuation procedures and techniques. While we believe that such preliminary estimates provide a reasonable basis for estimating the fair value of assets acquired and liabilities assumed, we will evaluate any additional information prior to finalization of the fair value. During the measurement period, we will adjust preliminary valuations assigned to assets and liabilities if new information is obtained about facts and circumstances that existed as of the Hemmer Acquisition Date, that, if known, would have resulted in revised values for these items as of that date. The impact of all changes, if any, that do not qualify as measurement period adjustments will be included in current period earnings.

The preliminary purchase price allocation to assets acquired and liabilities assumed in the Hemmer Acquisition was (in millions):

	<b>Initial Allocation</b>
Cash	\$ 1
Trade receivables	13
Inventories	17
Other current assets	2
Property, plant and equipment, net	14
Identifiable intangible assets	122
Other non-current assets	13
Short-term debt	(9)
Trade payables	(11)
Other current liabilities	(31)
Long-term debt	(11)
Other non-current liabilities	(44)
Net assets acquired	76
Noncontrolling interest	(16)
Goodwill on acquisition	219
Total consideration	<u>\$ 279</u>

The Hemmer Acquisition preliminarily resulted in \$219 million of non-tax deductible goodwill relating principally to Hemmer's long-term experience and large presence operating in emerging markets. This goodwill was assigned to the Latin America ("LATAM") reporting unit within our International segment. In the third quarter of 2022, we did not record any measurement period adjustments. See Note 7, *Goodwill and Intangible Assets*, for additional information.

The preliminary purchase price allocation to identifiable intangible assets acquired in the Hemmer Acquisition was:

	Fair Value (in millions of dollars)	Weighted Average Life (in years)
Definite-lived trademarks	\$ 101	13
Customer-related assets	21	15
Total	<u>\$ 122</u>	

We valued trademarks using the relief from royalty method and customer-related assets using the distributor method. Some of the more significant assumptions inherent in developing the valuations included the estimated annual net cash flows for each definite-lived intangible asset (including net sales, cost of products sold, selling and marketing costs, and working capital/contributory asset charges), the discount rate that appropriately reflects the risk inherent in each future cash flow stream, the assessment of each asset's life cycle, and competitive trends, as well as other factors. We determined the assumptions used in the financial forecasts using historical data, supplemented by current and anticipated market conditions, estimated product category growth rates, management's plans, and market comparables.

We used carrying values as of the Hemmer Acquisition Date to value certain current and non-current assets and liabilities, as we determined that they represented the fair value of those items at such date.

***Just Spices Acquisition:***

On January 18, 2022 (the "Just Spices Acquisition Date"), we acquired 85% of the shares of Just Spices GmbH ("Just Spices"), a German-based company focused on direct-to-consumer sales of premium spice blends, from certain third-party shareholders (the "Just Spices Acquisition").

The Just Spices Acquisition was accounted for under the acquisition method of accounting for business combinations. Total cash consideration related to the Just Spices Acquisition was approximately 214 million euros (approximately \$243 million at the Just Spices Acquisition Date). A noncontrolling interest was recognized at fair value, which was determined to be the noncontrolling interest's proportionate share of the acquiree's identifiable net assets, as of the Just Spices Acquisition Date. Under the terms of certain transaction agreements, Just Spices' other equity holders each have a put option to require us to purchase the remaining equity interests beginning three years after the Just Spices Acquisition Date. If the put option is not exercised, we have a call option to acquire the remaining equity interests of Just Spices. Considering the contractual terms related to the noncontrolling interest, it is classified as redeemable noncontrolling interest on our condensed consolidated balance sheet.

Subsequent to the Just Spices Acquisition, the redeemable noncontrolling interest is measured at the greater of the amount that would be paid if settlement occurred as of the balance sheet date based on the contractually defined redemption value and its carrying amount adjusted for the net income/(loss) attributable to the noncontrolling interest.

We utilized fair values at the Just Spices Acquisition Date to allocate the total consideration exchanged to the net tangible and intangible assets acquired and liabilities assumed. The purchase price allocation for the Just Spices Acquisition is preliminary and subject to adjustment.

The fair value estimates of the assets acquired are subject to adjustment during the measurement period (up to one year from the Just Spices Acquisition Date). The primary areas of accounting for the Just Spices Acquisition that are not yet finalized relate to the fair value of certain tangible net assets acquired, residual goodwill, and any related tax impact. The fair values of these net assets acquired are based on management's estimates and assumptions, as well as other information compiled by management, including valuations that utilize customary valuation procedures and techniques. While we believe that such preliminary estimates provide a reasonable basis for estimating the fair value of assets acquired and liabilities assumed, we will evaluate any additional information prior to finalization of the fair value. During the measurement period, we will adjust preliminary valuations assigned to assets and liabilities if new information is obtained about facts and circumstances that existed as of the Just Spices Acquisition Date, that, if known, would have resulted in revised values for these items as of that date. The impact of all changes, if any, that do not qualify as measurement period adjustments will be included in current period earnings.

The preliminary purchase price allocation to assets acquired and liabilities assumed in the Just Spices Acquisition was (in millions):

	Initial Allocation <sup>(a)</sup>	Adjustments	Updated Allocation
Cash	\$ 2	\$ —	\$ 2
Trade receivables	4	—	4
Inventories	7	—	7
Other current assets	9	—	9
Property, plant and equipment, net	1	—	1
Identifiable intangible assets	172	—	172
Trade payables	(10)	—	(10)
Other current liabilities	(12)	—	(12)
Other non-current liabilities	(54)	—	(54)
Net assets acquired	119	—	119
Redeemable noncontrolling interest	(43)	4	(39)
Goodwill on acquisition	167	(4)	163
Total consideration	\$ 243	\$ —	\$ 243

(a) As reported in Note 4, *Acquisitions and Divestitures*, to our condensed consolidated financial statements in our Quarterly Report on Form 10-Q for the three months ended March 26, 2022.

The Just Spices Acquisition preliminarily resulted in \$167 million of non-tax deductible goodwill relating principally to Just Spices' social media presence. This goodwill was assigned to the Continental Europe reporting unit within our International segment. In the second quarter of 2022, certain insignificant measurement period adjustments were made to the initial allocation, and the preliminary amount of goodwill was adjusted to \$163 million. In the third quarter of 2022, we did not record any measurement period adjustments. See Note 7, *Goodwill and Intangible Assets*, for additional information.

The preliminary purchase price allocation to identifiable intangible assets acquired in the Just Spices Acquisition was:

	Fair Value (in millions of dollars)	Weighted Average Life (in years)
Definite-lived trademarks	\$ 72	10
Customer-related assets	100	15
Total	\$ 172	

We valued trademarks using the relief from royalty method and customer-related assets using the distributor method. Some of the more significant assumptions inherent in developing the valuations included the estimated annual net cash flows for each definite-lived intangible asset (including net sales, cost of products sold, selling and marketing costs, and working capital/contributory asset charges), the discount rate that appropriately reflects the risk inherent in each future cash flow stream, the assessment of each asset's life cycle, and competitive trends, as well as other factors. We determined the assumptions used in the financial forecasts using historical data, supplemented by current and anticipated market conditions, estimated product category growth rates, management's plans, and market comparables.

We used carrying values as of the Just Spices Acquisition Date to value certain current and non-current assets and liabilities, as we determined that they represented the fair value of those items at such date.

#### **Assan Foods Acquisition:**

On October 1, 2021 (the "Assan Foods Acquisition Date"), we acquired all of the outstanding equity interests in Assan Gıda Sanayi ve Ticaret A.Ş. ("Assan Foods"), a condiments and sauces manufacturer based in Turkey, from third parties Kibar Holding Anonim Şirketi and a holder of registered shares of Assan Foods (the "Assan Foods Acquisition").

The Assan Foods Acquisition was accounted for under the acquisition method of accounting for business combinations. Total consideration related to the Assan Foods Acquisition was approximately \$79 million, including cash consideration of \$70 million and contingent consideration of approximately \$9 million. We utilized fair values at the Assan Foods Acquisition Date to allocate the total consideration exchanged to the net tangible and intangible assets acquired and liabilities assumed. The purchase price allocation for the Assan Foods Acquisition was final as of September 24, 2022.

The final purchase price allocation to assets acquired and liabilities assumed in the Assan Foods Acquisition was (in millions):

	Initial Allocation <sup>(a)</sup>	Adjustments	Final Allocation
Cash	\$ 4	\$ —	\$ 4
Trade receivables	24	—	24
Inventories	26	—	26
Other current assets	2	—	2
Property, plant and equipment, net	12	—	12
Identifiable intangible assets	—	16	16
Other non-current assets	4	1	5
Short-term debt	(21)	—	(21)
Current portion of long-term debt	(5)	—	(5)
Trade payables	(25)	—	(25)
Other current liabilities	(2)	—	(2)
Long-term debt	(4)	—	(4)
Other non-current liabilities	—	(4)	(4)
Net assets acquired	15	13	28
Goodwill on acquisition	64	(13)	51
Total consideration	\$ 79	\$ —	\$ 79

(a) As reported in Note 4, *Acquisitions and Divestitures*, to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 25, 2021.

The measurement period adjustments to the initial allocation were based on more detailed information obtained about the specific assets acquired.

In the fourth quarter of 2021, the Assan Foods Acquisition preliminarily resulted in \$64 million of non-tax deductible goodwill relating principally to additional capacity that the Assan Foods manufacturing facilities will provide for our brands in the EMEA East region. This goodwill was assigned to the EMEA East reporting unit within our International segment. Following the measurement period adjustments made in the first quarter of 2022, the preliminary amount of goodwill was adjusted to \$51 million as of March 26, 2022. In the second and third quarters of 2022, we did not record any measurement period adjustments. See Note 7, *Goodwill and Intangible Assets*, in this Quarterly Report on Form 10-Q as well as Note 9, *Goodwill and Intangible Assets*, to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 25, 2021 for additional information.

The purchase price allocation to identifiable intangible assets acquired in the Assan Foods Acquisition was:

	Fair Value (in millions of dollars)	Weighted Average Life (in years)
Definite-lived trademarks	\$ 13	10
Customer-related assets	3	10
Total	16	

We valued trademarks using the relief from royalty method and customer-related assets using the distributor method. Some of the more significant assumptions inherent in developing the valuations included the estimated annual net cash flows for each definite-lived intangible asset (including net sales, cost of products sold, selling and marketing costs, and working capital/contributory asset charges), the discount rate that appropriately reflects the risk inherent in each future cash flow stream, the assessment of each asset's life cycle, and competitive trends, as well as other factors. We determined the assumptions used in the financial forecasts using historical data, supplemented by current and anticipated market conditions, estimated product category growth rates, management's plans, and market comparables.

We used carrying values as of the Assan Foods Acquisition Date to value certain current and non-current assets and liabilities, as we determined that they represented the fair value of those items at such date.

#### **Deal Costs:**

Related to our acquisitions, we incurred insignificant deal costs for the three and nine months ended September 24, 2022 and the three and nine months ended September 25, 2021. We recognized these deal costs in selling, general and administrative expenses ("SG&A").



## Divestitures

### ***Powdered Cheese Transaction:***

In August 2022, we entered into a definitive agreement with a third party, Kerry Group, to sell our business-to-business powdered cheese business for total estimated consideration of approximately \$110 million (the “Powdered Cheese Transaction”). The net assets to be transferred in the Powdered Cheese Transaction include, among other things, the Albany, Minnesota manufacturing facility (collectively, the “Powdered Cheese Disposal Group”). The Powdered Cheese Transaction closed in the fourth quarter on September 30, 2022. The Powdered Cheese Transaction is not considered a strategic shift that will have a major effect on our operations or financial results; therefore, it will not be reported as discontinued operations.

In the third quarter of 2022, we determined that the Powdered Cheese Disposal Group met the held for sale criteria. Accordingly, we have presented the assets and liabilities of the Powdered Cheese Disposal Group as held for sale on the condensed consolidated balance sheet at September 24, 2022. As of September 24, 2022, we assessed the fair value less costs to sell of the net assets of the Powdered Cheese Disposal Group and determined that their estimated fair value exceeded their carrying amount, and, as such, we expect to recognize a gain on sale of business in the fourth quarter of 2022.

### ***Cheese Transaction:***

In September 2020, we entered into a definitive agreement with a third party, an affiliate of Groupe Lactalis (“Lactalis”), to sell certain assets in our global cheese business, as well as to license certain trademarks, for total consideration of approximately \$3.3 billion, including approximately \$3.2 billion of cash consideration and approximately \$141 million related to a perpetual license for the *Cracker Barrel* brand that Lactalis granted to us for certain products (the “Cheese Transaction”). The Cheese Transaction had two primary components. The first component related to the perpetual licenses for the *Kraft* and *Velveeta* brands that we granted to Lactalis for certain cheese products (the “*Kraft* and *Velveeta* Licenses”), along with a three-year transitional license that we granted to Lactalis for the *Philadelphia* brand (the “*Philadelphia* License” and collectively, the “Cheese Divestiture Licenses”). The second component related to the net assets transferred to Lactalis (the “Cheese Disposal Group”). The Cheese Transaction closed on November 29, 2021 (the “Cheese Transaction Closing Date”).

Of the \$3.3 billion total consideration, approximately \$1.6 billion was attributed to the Cheese Divestiture Licenses based on the estimated fair value of the licensed portion of each brand. As of the Cheese Transaction Closing Date, the license income related to the *Kraft* and *Velveeta* Licenses will be recognized over approximately 30 years, and the license income related to the *Philadelphia* License will be recognized over approximately three years. Related to the Cheese Divestiture Licenses, we recognized approximately \$14 million of license income for the three months and approximately \$41 million for the nine months ended September 24, 2022, which was recorded as a reduction to SG&A and classified as divestiture-related license income. Additionally, at September 24, 2022, we have recorded approximately \$1.5 billion in long-term deferred income and \$56 million in other current liabilities on the condensed consolidated balance sheet related to the Cheese Divestiture Licenses.

In the first quarter of 2022, we reimbursed Lactalis approximately \$20 million following a final inventory count performed after the Cheese Transaction closed. This amount reflects the difference between the estimated and actual value of inventory transferred, which was primarily driven by seasonal fluctuations in finished goods. The payment to Lactalis was recognized in our condensed consolidated statement of cash flows for the nine months ended September 24, 2022 as a cash outflow from investing activities in proceeds from sale of business, net of cash disposed and working capital adjustments.

In the second quarter of 2021, we assessed the fair value less costs to sell of the net assets of the Cheese Disposal Group and recorded an estimated pre-tax loss on sale of business of approximately \$27 million, which was recognized in other expense/(income).

See Note 4, *Acquisitions and Divestitures*, to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 25, 2021 for additional information related to the Cheese Transaction.

### ***Nuts Transaction:***

In February 2021, we entered into a definitive agreement with a third party, Hormel Foods Corporation, to sell certain assets in our global nuts business for total consideration of approximately \$3.4 billion (the “Nuts Transaction”). The net assets transferred in the Nuts Transaction included, among other things, our intellectual property rights to the *Planters* brand and to the *Corn Nuts* brand, three manufacturing facilities in the United States, and the associated inventories (collectively, the “Nuts Disposal Group”).

As of February 10, 2021, the date the Nuts Disposal Group was determined to be held for sale, we tested the individual assets included within the Nuts Disposal Group for impairment. The net assets of the Nuts Disposal Group had an aggregate carrying amount above their \$3.4 billion estimated fair value. We determined that the goodwill within the Nuts Disposal Group was partially impaired. As a result, we recorded a non-cash goodwill impairment loss of \$230 million, which was recognized in SG&A, in the first quarter of 2021. Additionally, we recorded an estimated pre-tax loss on sale of business of \$19 million in the first quarter of 2021 primarily related to estimated costs to sell, which was recognized in other expense/(income).

The Nuts Transaction closed in the second quarter of 2021. As a result of the Nuts Transaction closing, we recognized an incremental pre-tax loss on sale of business of \$17 million in other expense/(income) on our condensed consolidated statement of income in the second quarter of 2021. In the third quarter of 2021, we recorded adjustments to our estimated costs to sell, which resulted in a pre-tax gain on sale of business of \$1 million for the three months ended September 25, 2021. The total pre-tax loss on sale of business for the Nuts Transaction was \$35 million for the nine months ended September 25, 2021.

See Note 4, *Acquisitions and Divestitures*, to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 25, 2021 for additional information related to the Nuts Transaction.

#### **Heinz India Transaction:**

On January 30, 2019 (the “Heinz India Closing Date”), we sold 100% of our equity interests in Heinz India Private Limited (“Heinz India”) to two third-parties, Zydus Wellness Limited and Cadila Healthcare Limited (collectively, the “Buyers”) for approximately 46 billion Indian rupees (approximately \$655 million at the Heinz India Closing Date) (the “Heinz India Transaction”). In connection with the Heinz India Transaction, we agreed to indemnify the Buyers from and against any tax losses for any taxable period prior to the Heinz India Closing Date, including taxes for which we are liable as a result of any transaction that occurred on or before such date. To determine the fair value of our tax indemnity we made various assumptions, including the range of potential dates the tax matters will be resolved, the range of potential future cash flows, the probabilities associated with potential resolution dates and potential future cash flows, and the discount rate. We recorded tax indemnity liabilities related to the Heinz India Transaction totaling approximately \$48 million at the Heinz India Closing Date. We also recorded a corresponding \$48 million reduction of the pre-tax gain on the Heinz India Transaction within other expense/(income) in our condensed consolidated statement of income in the first quarter of 2019. Future changes to the fair value of these tax indemnity liabilities will continue to impact other expense/(income) throughout the life of the exposures as a component of the gain on sale of business for the Heinz India Transaction. As of September 24, 2022, the tax indemnity liabilities were \$39 million, including \$13 million included within other current liabilities and \$26 million in other non-current liabilities on our condensed consolidated balance sheet. There was no impact to the gain/(loss) on sale of business related to the tax indemnity liabilities for the nine months ended September 24, 2022 or the nine months ended September 25, 2021. We recognized an insignificant pre-tax loss on sale of business related to the Heinz India Transaction for the nine months ended September 24, 2022.

#### **Deal Costs:**

Related to our divestitures, we incurred insignificant deal costs for the three and nine months ended September 24, 2022 and the three and nine months ended September 25, 2021. We recognized these deal costs in SG&A.

#### **Held for Sale**

Our assets held for sale, by major class, were (in millions):

	September 24, 2022	December 25, 2021
<b>ASSETS</b>		
Inventories	\$ 30	\$ 5
Property, plant and equipment, net	26	5
Goodwill	37	—
Intangible assets, net	2	1
Total assets held for sale	\$ 95	\$ 11

The balances held for sale at September 24, 2022 primarily relate to the Powdered Cheese Transaction in our North America segment, as well as inventory in our International segment related to the Cheese Transaction, and certain manufacturing equipment and land use rights across the globe. At December 25, 2021, balances held for sale included inventory in our International segment related to the Cheese Transaction and certain manufacturing equipment and land use rights across the globe.

#### **Note 5. Restructuring Activities**

See our consolidated financial statements and related notes in our Annual Report on Form 10-K for the year ended December 25, 2021 for additional information on our restructuring activities.

**Restructuring Activities:**

We have restructuring programs globally, which are focused primarily on reducing our overall cost structure and streamlining our organizational design. For the nine months ended September 24, 2022, we eliminated approximately 470 positions related to these programs. As of September 24, 2022, we expect to eliminate approximately 70 additional positions during the remainder of 2022. For the three months ended September 24, 2022, restructuring activities resulted in expenses of \$7 million and included \$2 million of asset-related costs and \$5 million of other implementation costs. For the nine months ended September 24, 2022, restructuring activities resulted in expenses of \$37 million and included \$9 million of severance and employee benefit costs, \$9 million of asset-related costs, and \$19 million of other implementation costs. Restructuring activities resulted in expenses of \$15 million for the three months and \$52 million for the nine months ended September 25, 2021.

Our net liability balance for restructuring project costs that qualify as exit and disposal costs under U.S. GAAP was (in millions):

	Severance and Employee Benefit Costs	Other Exit Costs	Total
Balance at December 25, 2021	\$ 27	\$ 16	\$ 43
Charges/(credits)	9	—	9
Cash payments	(30)	(4)	(34)
Balance at September 24, 2022	<u>\$ 6</u>	<u>\$ 12</u>	<u>\$ 18</u>

We expect the majority of the liability for severance and employee benefit costs as of September 24, 2022 to be paid by the end of 2022. The liability for other exit costs primarily relates to lease obligations. The cash impact of these obligations will continue for the duration of the lease terms, which expire between 2022 and 2026.

**Total Expenses/(Income):**

Total expense/(income) related to restructuring activities, by income statement caption, were (in millions):

	For the Three Months Ended		For the Nine Months Ended	
	September 24, 2022	September 25, 2021	September 24, 2022	September 25, 2021
Severance and employee benefit costs - Cost of products sold	\$ —	\$ —	\$ (3)	\$ 4
Severance and employee benefit costs - SG&A	—	4	12	6
Asset-related costs - Cost of products sold	2	—	9	—
Other costs - Cost of products sold	3	—	9	—
Other costs - SG&A	3	11	11	42
Other costs - Other expense/(income)	(1)	—	(1)	—
	<u>\$ 7</u>	<u>\$ 15</u>	<u>\$ 37</u>	<u>\$ 52</u>

We do not include our restructuring activities within Segment Adjusted EBITDA (as defined in Note 16, *Segment Reporting*). The pre-tax impact of allocating such expenses/(income) to our segments would have been (in millions):

	For the Three Months Ended		For the Nine Months Ended	
	September 24, 2022	September 25, 2021	September 24, 2022	September 25, 2021
North America	\$ 4	\$ 4	\$ 30	\$ 6
International	3	1	4	7
General corporate expenses	—	10	3	39
	<u>\$ 7</u>	<u>\$ 15</u>	<u>\$ 37</u>	<u>\$ 52</u>

**Note 6. Inventories**

Inventories consisted of the following (in millions):

	September 24, 2022	December 25, 2021
Packaging and ingredients	\$ 812	\$ 571
Spare parts	200	208
Work in process	306	268
Finished products	2,217	1,682
Inventories	<u>\$ 3,535</u>	<u>\$ 2,729</u>

At September 24, 2022 and December 25, 2021, inventories excluded amounts classified as held for sale. See Note 4, *Acquisitions and Divestitures*, for additional information.

**Note 7. Goodwill and Intangible Assets**

Historically, we have tested our reporting units and brands for impairment annually as of the first day of our second quarter, or more frequently if events or circumstances indicate it is more likely than not that the fair value of a reporting unit or brand is less than its carrying amount. As discussed in further detail below, we performed an annual test as of March 27, 2022, the first day of our second quarter (the “Q2 2022 Annual Impairment Test”). Beginning in the third quarter of 2022 and for subsequent annual periods, we voluntarily changed the annual impairment assessment date to the first day of our third quarter and performed an additional annual impairment test as of June 26, 2022 (the “Q3 2022 Annual Impairment Test”). We believe this measurement date, which represents a change in the method of applying an accounting principle, better aligns with the timing of our strategic business planning process and financial forecasts, which are key components of the annual impairment tests and are typically completed in the third quarter of our fiscal year.

**Goodwill:**

Changes in the carrying amount of goodwill, by segment, were (in millions):

	North America	International	Total
Balance at December 25, 2021	\$ 28,242	\$ 3,054	\$ 31,296
Impairment losses	(455)	—	(455)
Acquisitions	—	386	386
Measurement period adjustments	—	(8)	(8)
Reclassified to assets held for sale	(37)	—	(37)
Translation adjustments and other	(68)	(540)	(608)
Balance at September 24, 2022	<u>\$ 27,682</u>	<u>\$ 2,892</u>	<u>\$ 30,574</u>

In the first quarter of 2022, we closed the Just Spices Acquisition in our International segment, which resulted in preliminary goodwill of \$167 million. Additionally, we recorded measurement period adjustments primarily related to the Assan Foods Acquisition that impacted goodwill. The Assan Foods Acquisition closed in the fourth quarter of 2021 and is in our International segment. These measurement period adjustments resulted in a net decrease to goodwill on acquisitions of approximately \$15 million in the first quarter of 2022. However, as each of the affected reporting units (EMEA East and LATAM in our International segment) had no goodwill balance remaining, we recorded a reduction of the \$53 million non-cash impairment loss recorded to SG&A in the fourth quarter of 2021 that fully impaired the goodwill related to the associated acquisitions and their respective reporting units. The impairment reduction of \$11 million, which reflects the measurement period adjustment of \$15 million adjusted for the impact of foreign currency, was recorded in SG&A in our International segment in the first quarter of 2022. Following these measurement period adjustments, there was no goodwill in the EMEA East or Latin America reporting units. See Note 9, *Goodwill and Intangible Assets*, to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 25, 2021 for additional information related to the impairment losses recorded in the fourth quarter of 2021. See Note 4, *Acquisitions and Divestitures*, for additional information related to these transactions and the related financial statement impacts.

In the second quarter of 2022, we closed the Hemmer Acquisition in our International segment, which resulted in preliminary goodwill of \$219 million. Additionally, we recorded insignificant measurement period adjustments related to the Just Spices Acquisition that impacted goodwill. These measurement period adjustments resulted in a decrease to goodwill on acquisitions of approximately \$4 million in the second quarter of 2022.

At September 24, 2022, goodwill excluded amounts classified as held for sale related to the Powdered Cheese Transaction. See Note 4, *Acquisitions and Divestitures*, for additional information related to the Powdered Cheese Transaction and its financial statement impact.

#### 2022 Year-to-Date Goodwill Impairment Testing

As described in Note 1, *Basis of Presentation*, in the second quarter of 2022, our internal reporting and reportable segments changed. We combined our United States and Canada zones to form the North America zone. Subsequently, we manage and report our operating results through two reportable segments defined by geographic region: North America and International. We have reflected this change in all historical periods presented.

The reorganization of our internal reporting and reportable segments changed the composition of certain of our reporting units wherein certain of our existing United States reporting units (primarily Enhancers, Specialty, and Away From Home (“ESA”); Kids, Snacks, and Beverages (“KSB”); Meal Foundations and Coffee (“MFC”); and Puerto Rico) and our existing Canada reporting units (Canada Retail and Canada Foodservice) have been reorganized into the following new North America reporting units: Taste, Meals, and Away From Home (“TMA”); Fresh, Beverages, and Desserts (“FBD”); Canada and North America Coffee (“CNAC”); and Other North America.

As a result of this reorganization, we reassigned assets and liabilities to the applicable reporting units and allocated goodwill using the relative fair value approach. We performed an interim impairment test (or transition test) on the affected reporting units on both a pre- and post-reorganization basis.

We performed our pre-reorganization impairment test as of March 27, 2022, which was our first day of the second quarter of 2022. There were six reporting units affected by the reassignment of assets and liabilities that maintained a goodwill balance as of our pre-reorganization impairment test date. These reporting units were ESA, KSB, MFC, Puerto Rico, Canada Retail, and Canada Foodservice. One other reporting unit did not have a goodwill balance as of our pre-reorganization impairment test date.

As part of our pre-reorganization impairment test, we utilized the discounted cash flow method under the income approach to estimate the fair values as of March 27, 2022 for the six reporting units noted above. As a result of our pre-reorganization impairment test, we recognized a non-cash impairment loss of approximately \$235 million in SG&A in our North America segment in the second quarter of 2022. This included a \$221 million impairment loss related to our Canada Retail reporting unit, which had a goodwill carrying amount of approximately \$1.2 billion after impairment, and a \$14 million impairment loss related to our Puerto Rico reporting unit, which represented all of the goodwill associated with the Puerto Rico reporting unit. The impairment of our Canada Retail reporting unit was primarily driven by an increase in the discount rate, which was impacted by higher interest rates and other market inputs, as well as a revised downward outlook for operating margin. The impairment of our Puerto Rico reporting unit was primarily driven by a revised downward outlook for operating margin. The other four reporting units for which no impairment charge was required were as follows: ESA, which had a goodwill carrying amount of approximately \$11.4 billion; KSB, which had a goodwill carrying amount of approximately \$9.3 billion; MFC, which had a goodwill carrying amount of approximately \$6.0 billion; and Canada Foodservice, which had a goodwill carrying amount of approximately \$158 million.

We performed our post-reorganization impairment test in conjunction with our Q2 2022 Annual Impairment Test and tested the new North America reporting units (TMA, FBD, CNAC, and Other North America) along with the reporting units in our International segment. The new North America reporting units’ goodwill carrying amounts for the post-reorganization and Q2 2022 Annual Impairment Test reflected the pre-reorganization test results, including impairments recorded. We tested our reporting units for impairment as of the first day of our second quarter, which was March 27, 2022 for our Q2 2022 Annual Impairment Test. In performing this test, we incorporated information that was known through the date of filing of our Quarterly Report on Form 10-Q for the period ended June 25, 2022. We utilized the discounted cash flow method under the income approach to estimate the fair value of our reporting units. As a result of our Q2 2022 Annual Impairment Test, we determined that the fair value of each of the reporting units tested was in excess of its carrying amount.

We performed our Q3 2022 Annual Impairment Test as of June 26, 2022, which was our first day of the third quarter of 2022. In performing this test, we incorporated information that was known through the date of filing this Quarterly Report on Form 10-Q. We utilized the discounted cash flow method under the income approach to estimate the fair value of our reporting units. As a result of our Q3 2022 Annual Impairment Test, we recognized a non-cash impairment loss of approximately \$220 million in SG&A in our North America segment related to our CNAC reporting unit. The impairment of our CNAC reporting unit was primarily driven by reduced revenue growth assumptions and negative macroeconomic factors, including increased interest rates and foreign currency exchange rates for the Canadian dollar relative to the U.S. dollar.

As of September 24, 2022, we maintain 11 reporting units, seven of which comprise our goodwill balance. These seven reporting units had an aggregate goodwill carrying amount of \$30.6 billion at September 24, 2022. As of the Q3 2022 Annual Impairment Test date, our reporting units with 20% or less fair value over carrying amount had an aggregate goodwill carrying amount of \$16.7 billion and included TMA, CNAC, and Continental Europe; and our reporting units with between 20-50% fair value over carrying amount had an aggregate goodwill carrying amount of \$14.5 billion and included FBD, Northern Europe, Asia, and LATAM. As discussed above and in Note 4, *Acquisitions and Divestitures*, goodwill was added to our LATAM reporting unit as a result of the Hemmer Acquisition in the second quarter of 2022.

Accumulated impairment losses to goodwill were \$11.3 billion as of September 24, 2022 and \$10.9 billion at December 25, 2021.

#### 2021 Year-to-Date Goodwill Impairment Testing

In the first quarter of 2021, we announced the Nuts Transaction and determined that the Nuts Disposal Group was held for sale. Accordingly, based on a relative fair value allocation, we reclassified \$1.7 billion of goodwill to assets held for sale, which included a portion of goodwill from four of our pre-reorganization reporting units. The Nuts Transaction primarily affected our KSB reporting unit but also affected, to a lesser extent, our ESA, Canada Foodservice, and Puerto Rico reporting units. These reporting units were evaluated for impairment prior to their representative inclusion in the Nuts Disposal Group as well as on a post-reclassification basis. The fair value of all reporting units was determined to be in excess of their carrying amounts in both scenarios and, therefore, no impairment was recorded.

We performed our 2021 annual impairment test as of March 28, 2021, which was the first day of our second quarter in 2021. We utilized the discounted cash flow method under the income approach to estimate the fair value of our reporting units. As a result of our 2021 annual impairment test, we recognized a non-cash impairment loss of approximately \$35 million in SG&A in the second quarter of 2021 related to our Puerto Rico reporting unit within our North America segment. With the update of our five-year operating plan in the second quarter of 2021, we established a revised downward outlook for net sales for this reporting unit. See Note 9, *Goodwill and Intangible Assets*, to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 25, 2021 for additional information on this impairment loss.

#### Additional Goodwill Considerations

Fair value determinations require considerable judgment and are sensitive to changes in underlying assumptions, estimates, and market factors. Estimating the fair value of individual reporting units requires us to make assumptions and estimates regarding our future plans, as well as industry, economic, and regulatory conditions. These assumptions and estimates include estimated future annual net cash flows, income tax rates, discount rates, growth rates, and other market factors. Our current expectations also include certain assumptions that could be negatively impacted if we are unable to meet our pricing expectations in relation to inflation. If current expectations of future growth rates and margins are not met, if market factors outside of our control, such as discount rates, income tax rates, foreign currency exchange rates, or inflation, change, or if management's expectations or plans otherwise change, including updates to our long-term operating plans, then one or more of our reporting units might become impaired in the future. Additionally, any decisions to divest certain non-strategic assets has led and could in the future lead to goodwill impairments.

Our reporting units that have 20% or less excess fair value over carrying amount as of the Q3 2022 Annual Impairment Test date have a heightened risk of future impairments if any assumptions, estimates, or market factors change in the future. Although the remaining reporting units have more than 20% excess fair value over carrying amount as of the Q3 2022 Annual Impairment Test date, these amounts are also associated with the acquisition of H. J. Heinz Company in 2013 by Berkshire Hathaway Inc. and 3G Global Food Holdings, LP (the "2013 Heinz Acquisition") and the merger of Kraft Foods Group, Inc. with and into H.J. Heinz Holding Corporation in 2015 (the "2015 Merger") and are recorded on our condensed consolidated balance sheet at their estimated acquisition date fair values. Therefore, if any assumptions, estimates, or market factors change in the future, these amounts are also susceptible to impairments.

#### Indefinite-lived intangible assets:

Changes in the carrying amount of indefinite-lived intangible assets, which primarily consisted of trademarks, were (in millions):

Balance at December 25, 2021	\$	39,419
Impairment losses		(462)
Translation adjustments and other		(716)
Balance at September 24, 2022	\$	38,241

#### 2022 Year-to-Date Indefinite-Lived Intangible Asset Impairment Testing

We performed our Q2 2022 Annual Impairment Test as of March 27, 2022, which was the first day of our second quarter in 2022. As a result of our Q2 2022 Annual Impairment Test, we recognized a non-cash impairment loss of \$395 million in SG&A in our North America segment in the second quarter of 2022 related to four brands, *Maxwell House*, *Miracle Whip*, *Jet Puffed*, and *Classico*. The impairments of the *Maxwell House*, *Jet Puffed*, and *Classico* brands were primarily due to downward revisions in expected future operating margins as well as an increase in the discount rate, which was impacted by higher interest rates and other market inputs. The impairment of the *Miracle Whip* brand was primarily due to an increase in the discount rate as well as downward revisions in expected future operating margins due to changes in expectations for commodity input costs, including soybean oil. These brands had an aggregate carrying amount of \$3.2 billion prior to these impairments and \$2.8 billion after these impairments.

We performed our Q3 2022 Annual Impairment Test as of June 26, 2022, which was our first day of the third quarter of 2022. As a result of our Q3 2022 Annual Impairment Test we recognized a non-cash impairment loss of \$67 million in SG&A in the third quarter of 2022 related to two brands, *Jet Puffed* and *Plasmon*. We recorded non-cash impairment losses of \$50 million in our North America segment and \$17 million in our International segment, consistent with ownership of the trademarks. The impairment of these brands was primarily due to reduced revenue growth assumptions. After these impairments, the aggregate carrying amount of these brands was \$204 million.

Our indefinite-lived intangible asset balance primarily consists of a number of individual brands, which had an aggregate carrying amount of \$38.2 billion at September 24, 2022. As of the Q3 2022 Annual Impairment Test date, brands with 20% or less fair value over carrying amount had an aggregate carrying amount after impairment of \$16.6 billion, brands with between 20-50% fair value over carrying amount had an aggregate carrying amount of \$2.5 billion, and brands that had over 50% fair value over carrying amount had an aggregate carrying amount of \$19.4 billion.

#### 2021 Year-to-Date Indefinite-Lived Intangible Asset Impairment Testing

We performed our 2021 annual impairment test as of March 28, 2021, which was the first day of our second quarter in 2021. As a result of our 2021 annual impairment test, we recognized a non-cash impairment loss of \$69 million in SG&A in the second quarter of 2021 related to two brands, *Plasmon* and *Maxwell House*. We recorded non-cash impairment losses of \$45 million in our International segment related to *Plasmon* and \$24 million in our North America segment related to *Maxwell House*, consistent with the ownership of the trademarks. The impairment of the *Plasmon* brand was largely due to downward revised revenue expectations for infant nutrition in Italy. The impairment of the *Maxwell House* brand was primarily due to downward revised revenue expectations for mainstream coffee in the U.S.

See Note 9, *Goodwill and Intangible Assets*, to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 25, 2021 for additional information on these impairment losses.

#### Additional Indefinite-Lived Intangible Asset Considerations

Fair value determinations require considerable judgment and are sensitive to changes in underlying assumptions, estimates, and market factors. Estimating the fair value of individual brands requires us to make assumptions and estimates regarding our future plans, as well as industry, economic, and regulatory conditions. These assumptions and estimates include estimated future annual net cash flows, income tax considerations, discount rates, growth rates, royalty rates, contributory asset charges, and other market factors. Our current expectations also include certain assumptions that could be negatively impacted if we are unable to meet our pricing expectations in relation to inflation. If current expectations of future growth rates and margins are not met, if market factors outside of our control, such as discount rates, income tax rates, foreign currency exchange rates, or inflation, change, or if management's expectations or plans otherwise change, including updates to our long-term operating plans, then one or more of our brands might become impaired in the future. Additionally, any decisions to divest certain non-strategic assets has led and could in the future lead to intangible asset impairments.

Our brands that were impaired in 2022 and 2021 were written down to their respective fair values resulting in zero excess fair value over carrying amount as of the applicable impairment test dates. Accordingly, these and other individual brands that have 20% or less excess fair value over carrying amount as of the Q3 2022 Annual Impairment Test date have a heightened risk of future impairments if any assumptions, estimates, or market factors change in the future. Although the remaining brands have more than 20% excess fair value over carrying amount as of the Q3 2022 Annual Impairment Test date, these amounts are also associated with the 2013 Heinz Acquisition and the 2015 Merger and are recorded on our condensed consolidated balance sheet at their estimated acquisition date fair values. Therefore, if any assumptions, estimates, or market factors change in the future, these amounts are also susceptible to impairments.

**Definite-lived intangible assets:**

Definite-lived intangible assets were (in millions):

	September 24, 2022			December 25, 2021		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Trademarks	\$ 2,191	\$ (614)	\$ 1,577	\$ 2,091	\$ (556)	\$ 1,535
Customer-related assets	3,645	(1,119)	2,526	3,617	(1,040)	2,577
Other	13	(3)	10	17	(6)	11
	<u>\$ 5,849</u>	<u>\$ (1,736)</u>	<u>\$ 4,113</u>	<u>\$ 5,725</u>	<u>\$ (1,602)</u>	<u>\$ 4,123</u>

At September 24, 2022 and December 25, 2021, definite-lived intangible assets excluded amounts classified as held for sale. See Note 4, *Acquisitions and Divestitures*, for additional information on amounts held for sale.

Amortization expense for definite-lived intangible assets was \$64 million for the three months and \$193 million for the nine months ended September 24, 2022 and \$60 million for the three months and \$180 million for the nine months ended September 25, 2021. Aside from amortization expense, the change in definite-lived intangible assets from December 25, 2021 to September 24, 2022 primarily reflects \$315 million of additions, which are largely related to the Hemmer Acquisition, the Just Spices Acquisition, and the Assan Foods Acquisition, the impact of foreign currency, and \$7 million of non-cash impairment losses related to two trademarks in our International segment. See Note 4, *Acquisitions and Divestitures*, for additional information on these acquisitions. The impairment of definite-lived intangible assets in the third quarter of 2022 relates to two trademarks that had a net carrying value that was deemed not to be recoverable.

In the second quarter of 2021, we recorded \$9 million of non-cash impairment losses to SG&A related to a trademark in our International segment that had a net carrying value that was deemed not to be recoverable.

We estimate that amortization expense related to definite-lived intangible assets will be approximately \$260 million in 2022 and 2023 and \$250 million in each of the following four years.

**Note 8. Income Taxes**

The provision for income taxes consists of provisions for federal, state, and non-U.S. income taxes. We operate in an international environment; accordingly, the consolidated effective tax rate is a composite rate reflecting the earnings in various locations and the applicable tax rates. Additionally, the calculation of the percentage point impact of goodwill impairment and other items on the effective tax rate are affected by income/(loss) before income taxes. Further, small movements in tax rates due to a change in tax law or a change in tax rates that causes us to revalue our deferred tax balances produces volatility in our effective tax rate. Our quarterly income tax provision is determined based on our estimated full year effective tax rate, adjusted for tax attributable to infrequent or unusual items, which are recognized on a discrete period basis in the income tax provision for the period in which they occur.

Our effective tax rate for the three months ended September 24, 2022 was an expense of 20.2% on pre-tax income. Our effective tax rate was impacted by the favorable geographic mix of pre-tax income in various non-U.S. jurisdictions and certain favorable net discrete items, including the revaluation of deferred tax balances due to changes in state tax rates and favorable changes in estimates of certain 2021 U.S. income and deductions. These impacts were partially offset by the impact of certain unfavorable net discrete items, primarily non-deductible goodwill impairments (10.3%).

Our effective tax rate for the three months ended September 25, 2021 was an expense of 16.2% on pre-tax income. Our effective tax rate was impacted by a favorable geographic mix of pre-tax income in various non-U.S. jurisdictions and certain favorable net discrete items, primarily the tax impact related to a business in our International segment that no longer met the held for sale criteria and the revaluation of our deferred tax balances due to changes in state tax rates.

Our effective tax rate for the nine months ended September 24, 2022 was an expense of 22.7% on pre-tax income. Our effective tax rate was impacted by the favorable geographic mix of pre-tax income in various non-U.S. jurisdictions and certain favorable net discrete items, primarily the revaluation of deferred tax balances due to changes in state tax rates. This impact was partially offset by the impact of certain unfavorable net discrete items, primarily non-deductible goodwill impairments (6.1%).

Our effective tax rate for the nine months ended September 25, 2021 was an expense of 42.6% on pre-tax income. Our effective tax rate was unfavorably impacted by certain net discrete items, primarily the tax impact related to the Nuts Transaction (13.0%), the revaluation of our deferred tax balances due to changes in international and state tax rates (9.0%), mainly an increase in U.K. tax rates, and non-deductible goodwill impairments (3.2%). These impacts were partially offset by a favorable geographic mix of pre-tax income in various non-U.S. jurisdictions and the impact of certain net discrete items, including the reversal of uncertain tax position reserves in certain U.S. state and non-U.S. jurisdictions.



**Other Income Tax Matters:**

Related to the Cheese Transaction, we paid cash taxes of approximately \$620 million in the second quarter of 2022.

Related to the Nuts Transaction, we paid cash taxes of approximately \$700 million in the second half of 2021.

On August 16, 2022, the Inflation Reduction Act was signed into law in the United States. We are currently evaluating the law and do not expect the Inflation Reduction Act to have a significant impact on our financial statements, including our annual estimated effective tax rate.

**Note 9. Employees' Stock Incentive Plans****Stock Options:**

Our stock option activity and related information was:

	Number of Stock Options	Weighted Average Exercise Price (per share)
Outstanding at December 25, 2021	11,778,068	\$ 45.43
Granted	941,146	38.68
Forfeited	(1,008,060)	64.21
Exercised	(1,614,646)	27.11
Outstanding at September 24, 2022	10,096,508	45.86

The aggregate intrinsic value of stock options exercised during the period was \$19 million for the nine months ended September 24, 2022.

**Restricted Stock Units:**

Our restricted stock unit ("RSU") activity and related information was:

	Number of Units	Weighted Average Grant Date Fair Value (per share)
Outstanding at December 25, 2021	12,476,390	\$ 33.08
Granted	3,001,791	37.62
Forfeited	(1,792,783)	33.30
Vested	(4,064,296)	33.23
Outstanding at September 24, 2022	9,621,102	34.40

The aggregate fair value of RSUs that vested during the period was \$155 million for the nine months ended September 24, 2022.

**Performance Share Units:**

Our performance share unit ("PSU") activity and related information was:

	Number of Units	Weighted Average Grant Date Fair Value (per share)
Outstanding at December 25, 2021	5,319,980	\$ 27.24
Granted	1,737,198	34.45
Forfeited	(1,413,591)	20.44
Vested	(1,503,572)	28.42
Outstanding at September 24, 2022	4,140,015	32.15

The aggregate fair value of PSUs that vested during the period was \$57 million for the nine months ended September 24, 2022.

**Note 10. Postemployment Benefits**

See our consolidated financial statements and related notes in our Annual Report on Form 10-K for the year ended December 25, 2021 for additional information on our postemployment-related accounting policies.

## Pension Plans

### Components of Net Pension Cost/(Benefit):

Net pension cost/(benefit) consisted of the following (in millions):

	For the Three Months Ended			
	U.S. Plans		Non-U.S. Plans	
	September 24, 2022	September 25, 2021	September 24, 2022	September 25, 2021
Service cost	\$ 1	\$ 1	\$ 3	\$ 4
Interest cost	34	24	9	7
Expected return on plan assets	(48)	(50)	(17)	(23)
Amortization of prior service costs/(credits)	—	—	1	—
Settlements	1	(2)	—	—
Net pension cost/(benefit)	<u>\$ (12)</u>	<u>\$ (27)</u>	<u>\$ (4)</u>	<u>\$ (12)</u>

  

	For the Nine Months Ended			
	U.S. Plans		Non-U.S. Plans	
	September 24, 2022	September 25, 2021	September 24, 2022	September 25, 2021
Service cost	\$ 3	\$ 4	\$ 10	\$ 12
Interest cost	82	67	28	22
Expected return on plan assets	(145)	(140)	(53)	(71)
Amortization of prior service costs/(credits)	—	—	1	1
Amortization of unrecognized losses/(gains)	—	—	1	1
Settlements	—	(8)	—	—
Special/contractual termination benefits	—	3	—	—
Net pension cost/(benefit)	<u>\$ (60)</u>	<u>\$ (74)</u>	<u>\$ (13)</u>	<u>\$ (35)</u>

We present all non-service cost components of net pension cost/(benefit) within other expense/(income) on our condensed consolidated statements of income. In 2021, we recognized special/contractual termination benefits related to the Nuts Transaction, including a loss of \$3 million for the nine months ended September 25, 2021. These special/contractual termination benefits are recorded in other expense/(income) as a component of our pre-tax loss/(gain) on sale of business on the condensed consolidated statement of income for the nine months ended September 25, 2021.

### Employer Contributions:

Related to our non-U.S. pension plans, we contributed \$8 million during the nine months ended September 24, 2022 and plan to make further contributions of approximately \$5 million during the remainder of 2022. We did not contribute to our U.S. pension plans during the nine months ended September 24, 2022 and do not plan to make contributions during the remainder of 2022. Estimated future contributions take into consideration current economic conditions, which at this time are expected to have minimal impact on expected contributions for the remainder of 2022. Our actual contributions and plans may change due to many factors, including changes in tax, employee benefit, or other laws and regulations, tax deductibility, significant differences between expected and actual pension asset performance or interest rates, or other factors.

## Postretirement Plans

### Components of Net Postretirement Cost/(Benefit):

Net postretirement cost/(benefit) consisted of the following (in millions):

	For the Three Months Ended		For the Nine Months Ended	
	September 24, 2022	September 25, 2021	September 24, 2022	September 25, 2021
Service cost	\$ 1	\$ 1	\$ 3	\$ 4
Interest cost	9	5	19	15
Expected return on plan assets	(13)	(12)	(40)	(36)
Amortization of prior service costs/(credits)	(5)	(2)	(12)	(6)
Amortization of unrecognized losses/(gains)	(3)	(4)	(12)	(12)
Curtailments	—	—	—	(4)
Net postretirement cost/(benefit)	<u>\$ (11)</u>	<u>\$ (12)</u>	<u>\$ (42)</u>	<u>\$ (39)</u>

We present all non-service cost components of net postretirement cost/(benefit) within other expense/(income) on our condensed consolidated statements of income. For the nine months ended September 25, 2021, we recognized a curtailment gain of \$4 million related to the Nuts Transaction. This gain was recorded in other expense/(income) as a component of our pre-tax loss/(gain) on sale of business on the condensed consolidated statements of income for the nine months ended September 25, 2021.

**Employer Contributions:**

During the nine months ended September 24, 2022, we contributed \$6 million to our postretirement benefit plans. We plan to make further contributions of approximately \$7 million to our postretirement benefit plans during the remainder of 2022. Estimated future contributions take into consideration current economic conditions, which at this time are expected to have minimal impact on expected contributions for the remainder of 2022. Our actual contributions and plans may change due to many factors, including changes in tax, employee benefit, or other laws and regulations, tax deductibility, significant differences between expected and actual postretirement plan asset performance or interest rates, or other factors.

**Note 11. Financial Instruments**

See our consolidated financial statements and related notes in our Annual Report on Form 10-K for the year ended December 25, 2021 for additional information on our overall risk management strategies, our use of derivatives, and our related accounting policies.

**Derivative Volume:**

The notional values of our outstanding derivative instruments were (in millions):

	Notional Amount	
	September 24, 2022	December 25, 2021
Commodity contracts	\$ 1,036	\$ 592
Foreign exchange contracts	3,148	3,359
Cross-currency contracts	6,789	7,239

**Fair Value of Derivative Instruments:**

The fair values and the levels within the fair value hierarchy of derivative instruments recorded on the condensed consolidated balance sheets were (in millions):

	September 24, 2022					
	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)		Significant Other Observable Inputs (Level 2)		Total Fair Value	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
<b>Derivatives designated as hedging instruments:</b>						
Foreign exchange contracts <sup>(a)</sup>	\$ —	\$ —	\$ 60	\$ 14	\$ 60	\$ 14
Cross-currency contracts <sup>(b)</sup>	—	—	637	320	637	320
<b>Derivatives not designated as hedging instruments:</b>						
Commodity contracts <sup>(c)</sup>	45	68	2	22	47	90
Foreign exchange contracts <sup>(a)</sup>	—	—	72	88	72	88
<b>Total fair value</b>	<b>\$ 45</b>	<b>\$ 68</b>	<b>\$ 771</b>	<b>\$ 444</b>	<b>\$ 816</b>	<b>\$ 512</b>

- (a) At September 24, 2022, the fair value of our derivative assets was recorded in other current assets (\$102 million) and other non-current assets (\$30 million), and the fair value of our derivative liabilities was recorded in other current liabilities (\$69 million) and other non-current liabilities (\$33 million).
- (b) At September 24, 2022, the fair value of our derivative assets was recorded in other current assets (\$271 million) and other non-current assets (\$366 million), and the fair value of our derivative liabilities was recorded in other current liabilities (\$131 million) and other non-current liabilities (\$189 million).
- (c) At September 24, 2022, the fair value of our derivative assets was recorded in other current assets and the fair value of derivative liabilities was recorded in other current liabilities.

December 25, 2021						
	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)		Significant Other Observable Inputs (Level 2)		Total Fair Value	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
<b>Derivatives designated as hedging instruments:</b>						
Foreign exchange contracts <sup>(a)</sup>	\$ —	\$ —	\$ 24	\$ 19	\$ 24	\$ 19
Cross-currency contracts <sup>(b)</sup>	—	—	247	212	247	212
<b>Derivatives not designated as hedging instruments:</b>						
Commodity contracts <sup>(c)</sup>	41	17	2	5	43	22
Foreign exchange contracts <sup>(a)</sup>	—	—	15	18	15	18
Total fair value	\$ 41	\$ 17	\$ 268	\$ 242	\$ 329	\$ 271

(a) At December 25, 2021, the fair value of our derivative assets was recorded in other current assets (\$31 million) and other non-current assets (\$8 million), and the fair value of our derivative liabilities was recorded in other current liabilities (\$33 million) and other non-current liabilities (\$4 million).

(b) At December 25, 2021, the fair value of our derivative assets was recorded in other current assets (\$74 million) and other non-current assets (\$173 million), and the fair value of our derivative liabilities was recorded in other current liabilities (\$42 million) and other non-current liabilities (\$170 million).

(c) At December 25, 2021, the fair value of our derivative assets was recorded in other current assets, and the fair value of our derivative liabilities was recorded in other current liabilities.

Our derivative financial instruments are subject to master netting arrangements that allow for the offset of assets and liabilities in the event of default or early termination of the contract. We elect to record the gross assets and liabilities of our derivative financial instruments on the condensed consolidated balance sheets. If the derivative financial instruments had been netted on the condensed consolidated balance sheets, the asset and liability positions each would have been reduced by \$457 million at September 24, 2022 and \$155 million at December 25, 2021. At September 24, 2022, we had posted collateral of \$24 million related to commodity derivative margin requirements, which was included in prepaid expenses on our condensed consolidated balance sheet. At December 25, 2021, we had collected collateral related to commodity derivative margin requirements of \$12 million, which was included in other current liabilities on our condensed consolidated balance sheet.

Level 1 financial assets and liabilities consist of commodity future and options contracts and are valued using quoted prices in active markets for identical assets and liabilities.

Level 2 financial assets and liabilities consist of commodity swaps, foreign exchange forwards, options, and swaps, and cross-currency swaps. Commodity swaps are valued using an income approach based on the observable market commodity index prices less the contract rate multiplied by the notional amount. Foreign exchange forwards and swaps are valued using an income approach based on observable market forward rates less the contract rate multiplied by the notional amount. Foreign exchange options are valued using an income approach based on a Black-Scholes-Merton formula. This formula uses present value techniques and reflects the time value and intrinsic value based on observable market rates. Cross-currency swaps are valued based on observable market spot and swap rates.

We did not have any Level 3 financial assets or liabilities in any period presented.

Our calculation of the fair value of financial instruments takes into consideration the risk of nonperformance, including counterparty credit risk.

#### **Net Investment Hedging:**

At September 24, 2022, we had the following items designated as net investment hedges:

- Non-derivative foreign-denominated debt with principal amounts of €650 million and £400 million;
- Cross-currency contracts with notional amounts of £339 million (\$450 million), C\$1.4 billion (\$1.1 billion), €1.9 billion (\$2.1 billion), and ¥9.6 billion (\$85 million); and
- Foreign exchange contract denominated in euro with an aggregate notional amount of \$84 million.

We periodically use non-derivative instruments such as non-U.S. dollar financing transactions or non-U.S. dollar assets or liabilities, including intercompany loans, to hedge the exposure of changes in underlying foreign currency denominated subsidiary net assets, and they are designated as net investment hedges. At September 24, 2022, we had euro intercompany loans with an aggregate notional amount of \$135 million and a Polish zloty intercompany loan with an aggregate notional amount of \$19 million designated as net investment hedges.

The component of the gains and losses on our net investment in these designated foreign operations, driven by changes in foreign exchange rates, are economically offset by fair value movements on the effective portion of our cross-currency contracts and foreign exchange contracts and remeasurements of our foreign-denominated debt.

**Cash Flow Hedge Coverage:**

At September 24, 2022, we had entered into foreign exchange contracts designated as cash flow hedges for periods not exceeding the next three years and into cross-currency contracts designated as cash flow hedges for periods not exceeding the next six years.

**Deferred Hedging Gains and Losses on Cash Flow Hedges:**

Based on our valuation at September 24, 2022 and assuming market rates remain constant through contract maturities, we expect transfers to net income/(loss) of unrealized gains during the next 12 months on foreign currency cash flow hedges to be approximately \$23 million and on cross-currency cash flow hedges to be approximately \$14 million. Additionally, we expect transfers to net income/(loss) of unrealized losses on interest rate cash flow hedges during the next 12 months to be insignificant.

**Acquisition Hedging:**

We entered into foreign exchange derivative contracts to economically hedge the foreign currency exposure related to the cash consideration for the Hemmer Acquisition. These derivative contracts settled in the second quarter of 2022. The related derivative gains were \$38 million for the nine months ended September 24, 2022, and were recorded within other expense/(income). These gains are classified as other losses/(gains) related to acquisitions and divestitures. The related cash flows were classified as cash inflows from investing activities on the condensed consolidated statement of cash flows. See Note 4, *Acquisitions and Divestitures*, for additional information related to the Hemmer Acquisition.

**Derivative Impact on the Statements of Comprehensive Income:**

The following table presents the pre-tax amounts of derivative gains/(losses) deferred into accumulated other comprehensive income/(losses) and the income statement line item that will be affected when reclassified to net income/(loss) (in millions):

Accumulated Other Comprehensive Income/(Losses) Component	Gains/(Losses) Recognized in Other Comprehensive Income/(Losses) Related to Derivatives Designated as Hedging Instruments				Location of Gains/(Losses) When Reclassified to Net Income/(Loss)
	For the Three Months Ended		For the Nine Months Ended		
	September 24, 2022	September 25, 2021	September 24, 2022	September 25, 2021	
Cash flow hedges:					
Foreign exchange contracts	\$ —	\$ —	\$ 1	\$ (1)	Net sales
Foreign exchange contracts	38	24	44	(16)	Cost of products sold
Foreign exchange contracts (excluded component)	(8)	—	(13)	—	Cost of products sold
Foreign exchange contracts	2	—	3	—	SG&A
Cross-currency contracts	(99)	(33)	(208)	(65)	Other expense/(income)
Cross-currency contracts (excluded component)	8	7	22	21	Other expense/(income)
Cross-currency contracts	(9)	(5)	(23)	(15)	Interest expense
Net investment hedges:					
Foreign exchange contracts	11	2	23	2	Other expense/(income)
Foreign exchange contracts (excluded component)	—	1	(1)	1	Interest expense
Cross-currency contracts	287	98	512	31	Other expense/(income)
Cross-currency contracts (excluded component)	11	5	35	17	Interest expense
Total gains/(losses) recognized in statements of comprehensive income	\$ 241	\$ 99	\$ 395	\$ (25)	

**Derivative Impact on the Statements of Income:**

The following tables present the pre-tax amounts of derivative gains/(losses) reclassified from accumulated other comprehensive income/(losses) to net income/(loss) and the affected income statement line items (in millions):

	For the Three Months Ended							
	September 24, 2022				September 25, 2021			
	Cost of products sold	SG&A	Interest expense	Other expense/(income)	Cost of products sold	Interest expense	Other expense/(income)	
<b>Total amounts presented in the condensed consolidated statements of income in which the following effects were recorded</b>	\$ 4,662	\$ 1,092	\$ 228	\$ (22)	\$ 4,296	\$ 415	\$ (138)	
<b>Gains/(losses) related to derivatives designated as hedging instruments:</b>								
Cash flow hedges:								
Foreign exchange contracts	\$ 1	\$ 2	\$ —	\$ —	\$ (13)	\$ —	\$ —	
Foreign exchange contracts (excluded component)	(2)	—	—	—	(1)	—	—	
Interest rate contracts	—	—	(1)	—	—	—	—	
Cross-currency contracts	—	—	(8)	(90)	—	(6)	(22)	
Cross-currency contracts (excluded component)	—	—	—	8	—	—	7	
Net investment hedges:								
Cross-currency contracts (excluded component)	—	—	11	—	—	4	—	
<b>Gains/(losses) related to derivatives not designated as hedging instruments:</b>								
Commodity contracts	(56)	—	—	—	53	—	—	
Foreign exchange contracts	—	—	—	(50)	—	—	(13)	
Cross-currency contracts	—	—	—	(2)	—	—	5	
<b>Total gains/(losses) recognized in statements of income</b>	<u>\$ (57)</u>	<u>\$ 2</u>	<u>\$ 2</u>	<u>\$ (134)</u>	<u>\$ 39</u>	<u>\$ (2)</u>	<u>\$ (23)</u>	

	For the Nine Months Ended							
	September 24, 2022				September 25, 2021			
	Cost of products sold	SG&A	Interest expense	Other expense/(income)	Cost of products sold	SG&A	Interest expense	Other expense/(income)
<b>Total amounts presented in the condensed consolidated statements of income in which the following effects were recorded</b>	\$ 13,346	\$ 3,350	\$ 704	\$ (211)	\$ 12,813	\$ 3,040	\$ 1,443	\$ (191)
<b>Gains/(losses) related to derivatives designated as hedging instruments:</b>								
Cash flow hedges:								
Foreign exchange contracts	\$ (6)	\$ 2	\$ —	\$ —	\$ (32)	\$ (1)	\$ —	\$ —
Foreign exchange contracts (excluded component)	(5)	—	—	—	(2)	—	—	—
Interest rate contracts	—	—	(1)	—	—	—	—	—
Cross-currency contracts	—	—	(23)	(170)	—	—	(16)	(50)
Cross-currency contracts (excluded component)	—	—	—	22	—	—	—	20
Net investment hedges:								
Foreign exchange contracts (excluded component)	—	—	(1)	—	—	—	1	—
Cross-currency contracts (excluded component)	—	—	31	—	—	—	11	—
<b>Gains/(losses) related to derivatives not designated as hedging instruments:</b>								
Commodity contracts	92	—	—	—	147	—	—	—
Foreign exchange contracts	—	—	—	(47)	—	—	—	(33)
Cross-currency contracts	—	—	—	—	—	—	—	9
<b>Total gains/(losses) recognized in statements of income</b>	<b>\$ 81</b>	<b>\$ 2</b>	<b>\$ 6</b>	<b>\$ (195)</b>	<b>\$ 113</b>	<b>\$ (1)</b>	<b>\$ (4)</b>	<b>\$ (54)</b>

**Non-Derivative Impact on Statements of Comprehensive Income:**

Related to our non-derivative foreign-denominated debt instruments designated as net investment hedges, we recognized pre-tax gains of \$129 million for the three months and \$230 million for the nine months ended September 24, 2022 and pre-tax gains of \$27 million for the three months and \$32 million for the nine months ended September 25, 2021. These amounts were recognized in other comprehensive income/(loss).

**Note 12. Accumulated Other Comprehensive Income/(Losses)**

The components of, and changes in, accumulated other comprehensive income/(losses), net of tax, were as follows (in millions):

	Foreign Currency Translation Adjustments	Net Postemployment Benefit Plan Adjustments	Net Cash Flow Hedge Adjustments	Total
<b>Balance as of December 25, 2021</b>	\$ (2,285)	\$ 364	\$ 97	\$ (1,824)
Foreign currency translation adjustments	(1,494)	—	—	(1,494)
Net deferred gains/(losses) on net investment hedges	581	—	—	581
Amounts excluded from the effectiveness assessment of net investment hedges	26	—	—	26
Net deferred losses/(gains) on net investment hedges reclassified to net income/(loss)	(23)	—	—	(23)
Net deferred gains/(losses) on cash flow hedges	—	—	(101)	(101)
Amounts excluded from the effectiveness assessment of cash flow hedges	—	—	9	9
Net deferred losses/(gains) on cash flow hedges reclassified to net income/(loss)	—	—	97	97
Net actuarial gains/(losses) arising during the period	—	(260)	—	(260)
Net postemployment benefit losses/(gains) reclassified to net income/(loss)	—	(15)	—	(15)
Total other comprehensive income/(loss)	(910)	(275)	5	(1,180)
<b>Balance as of September 24, 2022</b>	<u>\$ (3,195)</u>	<u>\$ 89</u>	<u>\$ 102</u>	<u>\$ (3,004)</u>

The gross amount and related tax benefit/(expense) recorded in, and associated with, each component of other comprehensive income/(loss) were as follows (in millions):

	For the Three Months Ended					
	September 24, 2022			September 25, 2021		
	Before Tax Amount	Tax	Net of Tax Amount	Before Tax Amount	Tax	Net of Tax Amount
Foreign currency translation adjustments	\$ (815)	\$ —	\$ (815)	\$ (238)	\$ —	\$ (238)
Net deferred gains/(losses) on net investment hedges	427	(103)	324	127	(31)	96
Amounts excluded from the effectiveness assessment of net investment hedges	11	(3)	8	6	(2)	4
Net deferred losses/(gains) on net investment hedges reclassified to net income/(loss)	(11)	1	(10)	(4)	1	(3)
Net deferred gains/(losses) on cash flow hedges	(68)	39	(29)	(14)	8	(6)
Amounts excluded from the effectiveness assessment of cash flow hedges	—	1	1	7	—	7
Net deferred losses/(gains) on cash flow hedges reclassified to net income/(loss)	90	(42)	48	35	(13)	22
Net actuarial gains/(losses) arising during the period	(154)	37	(117)	(20)	5	(15)
Net postemployment benefit losses/(gains) reclassified to net income/(loss)	(6)	2	(4)	(8)	3	(5)



	For the Nine Months Ended					
	September 24, 2022			September 25, 2021		
	Before Tax Amount	Tax	Net of Tax Amount	Before Tax Amount	Tax	Net of Tax Amount
Foreign currency translation adjustments	\$ (1,494)	\$ —	\$ (1,494)	\$ 13	\$ —	\$ 13
Net deferred gains/(losses) on net investment hedges	765	(184)	581	65	(13)	52
Amounts excluded from the effectiveness assessment of net investment hedges	34	(8)	26	18	(4)	14
Net deferred losses/(gains) on net investment hedges reclassified to net income/(loss)	(30)	7	(23)	(12)	3	(9)
Net deferred gains/(losses) on cash flow hedges	(183)	82	(101)	(97)	27	(70)
Amounts excluded from the effectiveness assessment of cash flow hedges	9	—	9	21	—	21
Net deferred losses/(gains) on cash flow hedges reclassified to net income/(loss)	181	(84)	97	81	(33)	48
Net actuarial gains/(losses) arising during the period	(345)	85	(260)	78	(20)	58
Net postemployment benefit losses/(gains) reclassified to net income/(loss)	(22)	7	(15)	(24)	6	(18)

The amounts reclassified from accumulated other comprehensive income/(losses) were as follows (in millions):

Accumulated Other Comprehensive Income/(Losses) Component	Reclassified from Accumulated Other Comprehensive Income/(Losses) to Net Income/(Loss)				Affected Line Item in the Statements of Income
	For the Three Months Ended		For the Nine Months Ended		
	September 24, 2022	September 25, 2021	September 24, 2022	September 25, 2021	
Losses/(gains) on net investment hedges:					
Foreign exchange contracts <sup>(a)</sup>	\$ —	\$ —	\$ 1	\$ (1)	Interest expense
Cross-currency contracts <sup>(a)</sup>	(11)	(4)	(31)	(11)	Interest expense
Losses/(gains) on cash flow hedges:					
Foreign exchange contracts <sup>(b)</sup>	1	14	11	34	Cost of products sold
Foreign exchange contracts <sup>(b)</sup>	(2)	—	(2)	1	SG&A
Cross-currency contracts <sup>(b)</sup>	82	15	148	30	Other expense/(income)
Cross-currency contracts <sup>(b)</sup>	8	6	23	16	Interest expense
Interest rate contracts <sup>(c)</sup>	1	—	1	—	Interest expense
Losses/(gains) on hedges before income taxes	79	31	151	69	
Losses/(gains) on hedges, income taxes	(41)	(12)	(77)	(30)	
Losses/(gains) on hedges	<u>\$ 38</u>	<u>\$ 19</u>	<u>\$ 74</u>	<u>\$ 39</u>	
Losses/(gains) on postemployment benefits:					
Amortization of unrecognized losses/(gains) <sup>(d)</sup>	\$ (3)	\$ (3)	\$ (11)	\$ (10)	
Amortization of prior service costs/(credits) <sup>(d)</sup>	(4)	(2)	(11)	(5)	
Settlement and curtailment losses/(gains) <sup>(d)</sup>	1	(3)	—	(9)	
Losses/(gains) on postemployment benefits before income taxes	(6)	(8)	(22)	(24)	
Losses/(gains) on postemployment benefits, income taxes	2	3	7	6	
Losses/(gains) on postemployment benefits	<u>\$ (4)</u>	<u>\$ (5)</u>	<u>\$ (15)</u>	<u>\$ (18)</u>	

(a) Represents recognition of the excluded component in net income/(loss).

(b) Includes amortization of the excluded component and the effective portion of the related hedges.

(c) Represents amortization of realized hedge losses that were deferred into accumulated other comprehensive income/(losses) through the maturity of the related long-term debt instruments.

(d) These components are included in the computation of net periodic postemployment benefit costs. See Note 10, *Postemployment Benefits*, for additional information.

In this note we have excluded activity and balances related to noncontrolling interest due to their insignificance. This activity was primarily related to foreign currency translation adjustments.

### **Note 13. Financing Arrangements**

We enter into various product financing arrangements to facilitate supply from our vendors. Balance sheet classification is based on the nature of the arrangements. We have concluded that our obligations to our suppliers, including amounts due and scheduled payment terms, are impacted by their participation in the program and therefore we classify amounts outstanding within other current liabilities on our condensed consolidated balance sheets. We had approximately \$166 million at September 24, 2022 and approximately \$215 million at December 25, 2021 on our condensed consolidated balance sheets related to these arrangements.

### **Note 14. Commitments, Contingencies, and Debt**

#### **Legal Proceedings**

We are involved in legal proceedings, claims, and governmental inquiries, inspections, or investigations (“Legal Matters”) arising in the ordinary course of our business. While we cannot predict with certainty the results of Legal Matters in which we are currently involved or may in the future be involved, we do not expect that the ultimate costs to resolve the Legal Matters that are currently pending will have a material adverse effect on our financial condition, results of operations, or cash flows.

#### ***Class Actions and Stockholder Derivative Actions:***

The Kraft Heinz Company and certain of our current and former officers and directors are currently defendants in a consolidated securities class action lawsuit pending in the United States District Court for the Northern District of Illinois, *Union Asset Management Holding AG, et al. v. The Kraft Heinz Company, et al.* The consolidated amended class action complaint, which was filed on August 14, 2020 and also names 3G Capital, Inc. and several of its subsidiaries and affiliates (the “3G Entities”) as defendants, asserts claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and Rule 10b-5 promulgated thereunder, based on allegedly materially false or misleading statements and omissions in public statements, press releases, investor presentations, earnings calls, Company documents, and SEC filings regarding the Company’s business, financial results, and internal controls, and further alleges the 3G Entities engaged in insider trading and misappropriated the Company’s material, non-public information. The plaintiffs seek damages in an unspecified amount, attorneys’ fees, and other relief. The Company filed a motion to dismiss the consolidated amended class action complaint, which motion the court denied in an order dated August 11, 2021. Plaintiffs filed a motion for class certification on March 28, 2022.

Certain of The Kraft Heinz Company’s current and former officers and directors and the 3G Entities are also named as defendants in a stockholder derivative action, *In re Kraft Heinz Shareholder Derivative Litigation*, which had been previously consolidated in the United States District Court for the Western District of Pennsylvania, and is now pending in the United States District Court for the Northern District of Illinois. The court appointed lead plaintiffs and plaintiffs’ counsel on October 21, 2021, and lead plaintiffs filed a consolidated amended complaint on November 22, 2021. The consolidated amended complaint asserts state law claims for alleged breaches of fiduciary duties and unjust enrichment, as well as federal claims for contribution for alleged violations of Sections 10(b) and 21D of the Exchange Act and Rule 10b-5 promulgated thereunder, based on allegedly materially false or misleading statements and omissions in public statements and SEC filings, and for implementing cost cutting measures that allegedly damaged the Company. The plaintiffs seek damages in an unspecified amount, attorneys’ fees, and other relief.

Certain of The Kraft Heinz Company's current and former officers and directors and the 3G Entities were also named as defendants in a consolidated stockholder derivative action, *In re Kraft Heinz Company Derivative Litigation*, which was filed in the Delaware Court of Chancery. The consolidated amended complaint, which was filed on April 27, 2020, alleged state law claims, contending that the 3G Entities were controlling stockholders who owed fiduciary duties to the Company, and that they breached those duties by allegedly engaging in insider trading and misappropriating the Company's material, non-public information. The complaint further alleged that certain of The Kraft Heinz Company's current and former officers and directors breached their fiduciary duties to the Company by purportedly making materially misleading statements and omissions regarding the Company's financial performance and the impairment of its goodwill and intangible assets, and by supposedly approving or allowing the 3G Entities' alleged insider trading. The complaint sought relief against the defendants in the form of damages, disgorgement of all profits obtained from the alleged insider trading, contribution and indemnification, and an award of attorneys' fees and costs. The defendants filed a motion to dismiss the consolidated amended complaint, which motion the Delaware Chancery Court granted in an order dated December 15, 2021. The plaintiffs filed a notice of appeal on January 13, 2022, and the Delaware Supreme Court affirmed the trial court's dismissal with prejudice of the consolidated amended complaint in an order dated August 1, 2022.

Certain of The Kraft Heinz Company's current and former officers and directors and the 3G Entities are named as defendants in an additional stockholder derivative action, *Datnoff, et al. v. Behring, et al.*, which was filed on May 6, 2022 in the Delaware Court of Chancery. The complaint alleges state law claims and contends that the Company's Board of Directors wrongfully refused plaintiffs' demands to pursue legal action against the named defendants. Specifically, the complaint alleges that certain of the Company's current and former officers and directors breached their fiduciary duties to the Company by purportedly making materially misleading statements and omissions regarding the Company's financial performance and the impairment of its goodwill and intangible assets. The complaint further alleges that the 3G Entities and certain of the Company's current and former officers and directors breached their fiduciary duties by engaging in insider trading and misappropriating the Company's material, non-public information, or aided and abetted such alleged breaches of fiduciary duty. The complaint seeks relief against the defendants, principally in the form of damages, disgorgement of all profits obtained from the alleged insider trading, contribution and indemnification, and an award of attorneys' fees and costs.

We intend to vigorously defend against these lawsuits; however, we cannot reasonably estimate the potential range of loss, if any, due to the early stage of these proceedings.

## **Debt**

We may from time to time seek to retire or purchase our outstanding debt through redemptions, tender offers, cash purchases, prepayments, refinancing, exchange offers, open market or privately negotiated transactions, Rule 10b5-1 plans, or otherwise. Cash payments related to debt extinguishment are classified as cash outflows from financing activities on the condensed consolidated statements of cash flows. Any gains or losses on extinguishment of debt are recognized in interest expense on the condensed consolidated statements of income.

### ***Borrowing Arrangements:***

In July 2022, together with Kraft Heinz Foods Company ("KHFC"), our 100% owned operating subsidiary, we entered into a new credit agreement (the "Credit Agreement"), which provides for a five-year senior unsecured revolving credit facility in an aggregate amount of \$4.0 billion (the "Senior Credit Facility") that will mature on July 8, 2027 and replaced our then existing credit facility (the "Previous Senior Credit Facility").

The Credit Agreement includes a \$1.0 billion sublimit for borrowings in Canadian dollars, euro, or British pound sterling, as well as a swingline sub-facility of up to \$400 million, and a letter of credit sub-facility of up to \$300 million. Additionally, and subject to certain conditions, we may increase the amount of revolving commitments and/or add tranches of term loans in a combined aggregate amount of up to \$1.0 billion.

Borrowings under the Senior Credit Facility will bear interest at the rates specified in the Credit Agreement, which vary based on the type of borrowing and certain other customary conditions.

The Credit Agreement contains customary representations, warranties, and covenants that are typical for these types of facilities and could, upon the occurrence of certain events of default, restrict our ability to access our Senior Credit Facility. The Credit Agreement requires us to maintain a minimum shareholders' equity (excluding accumulated other comprehensive income/(losses)) of at least \$35 billion.

The obligations under the Credit Agreement are guaranteed by KHFC and The Kraft Heinz Company in the case of indebtedness and other liabilities of any subsidiary borrower.

No amounts were drawn on our Senior Credit Facility at September 24, 2022, our Previous Senior Credit Facility at December 25, 2021, or on either the Senior Credit Facility or Previous Senior Credit Facility during the nine months ended September 24, 2022 or September 25, 2021. We were in compliance with all financial covenants as of September 24, 2022.

***Open Market Debt Repurchases:***

***2022 Open Market Debt Repurchases***

During the nine months ended September 24, 2022, we repurchased approximately \$448 million of certain of our senior notes under Rule 10b5-1 plans, including \$268 million in the second quarter of 2022 (the “Q2 2022 Repurchases”) and \$180 million in the third quarter of 2022 (the “Q3 2022 Repurchases” and, together with the Q2 2022 Repurchases, the “2022 Repurchases”). The \$448 million repurchased during the nine months ended September 24, 2022 included approximately \$133 million aggregate principal amount of 6.500% senior notes due February 2040, approximately \$70 million aggregate principal amount of 5.200% senior notes due July 2045, approximately \$63 million aggregate principal amount of 7.125% senior notes due August 2039, approximately \$61 million aggregate principal amount of 5.000% senior notes due June 2042, approximately \$34 million aggregate principal amount of 4.875% senior notes due October 2049, approximately \$29 million aggregate principal amount of 5.000% senior notes due July 2035, approximately \$29 million aggregate principal amount of 6.875% senior notes due January 2039, approximately \$14 million aggregate principal amount of 6.375% senior notes due July 2028, approximately \$9 million aggregate principal amount of 5.500% senior notes due June 2050, approximately \$4 million aggregate principal amount of 4.625% senior notes due October 2039, and approximately \$2 million aggregate principal amount of 4.625% senior notes due January 2029.

In connection with the 2022 Repurchases, we recognized a net gain on extinguishment of debt of approximately \$12 million within interest expense on the condensed consolidated statements of income for the nine months ended September 24, 2022, which included a net gain of \$9 million in the second quarter of 2022 related to the Q2 2022 Repurchases and a net gain of \$3 million in the third quarter of 2022 related to the Q3 2022 Repurchases. This gain primarily reflects the write-off of unamortized premiums partially offset by the payment of net premiums associated with the repurchases. Related to the 2022 Repurchases, we recognized debt prepayment and extinguishment costs of \$17 million on the condensed consolidated statement of cash flows for the nine months ended September 24, 2022, which reflect the \$12 million net gain on extinguishment of debt adjusted for the non-cash write-off of unamortized premiums of \$30 million and unamortized debt issuance costs of \$1 million.

***2021 Open Market Debt Repurchases***

During the nine months ended September 25, 2021, we repurchased approximately \$428 million of certain of our senior notes under Rule 10b5-1 plans, including \$207 million in the second quarter of 2021 (the “Q2 2021 Repurchases”) and \$221 million in the third quarter of 2021 (the “Q3 2021 Repurchases” and, together with the Q2 2021 Repurchases, the “2021 Repurchases”). See Note 15, *Commitments, Contingencies, and Debt*, to our condensed consolidated financial statements in our Quarterly Report on Form 10-Q for the quarterly period ended September 25, 2021 for the amount extinguished by senior notes in the 2021 Repurchases.

In connection with the 2021 Repurchases, we recognized a loss on extinguishment of debt of approximately \$80 million within interest expense on the condensed consolidated statements of income for the nine months ended September 25, 2021, which included a loss of \$28 million in the second quarter of 2021 related to the Q2 2021 Repurchases and a loss of \$52 million in the third quarter of 2021 related to the Q3 2021 Repurchases. These losses primarily reflect the payment of premiums associated with the repurchases as well as the write-off of unamortized debt issuance costs, premiums, and discounts. Related to the 2021 Repurchases, we recognized debt prepayment and extinguishment costs of \$82 million on the condensed consolidated statement of cash flows for the nine months ended September 25, 2021, which reflect the \$80 million loss on extinguishment of debt adjusted for the non-cash write-off of unamortized premiums of \$5 million, unamortized discounts of \$1 million, and unamortized debt issuance costs of \$2 million.

***Tender Offers:***

***2021 Tender Offers***

In February 2021, KHFC commenced a cash tender offer to purchase up to the maximum combined aggregate purchase price of \$1.0 billion, including principal and premium but excluding accrued and unpaid interest (the “2021 Maximum Tender Amount”), of its outstanding 3.950% senior notes due July 2025, 3.000% senior notes due June 2026, 4.000% senior notes due June 2023, and 3.500% senior notes due June 2022 (the “Q1 2021 Tender Offer”), listed in order of priority. Based on participation, KHFC elected to settle the Q1 2021 Tender Offer on the early settlement date, March 9, 2021. Since the aggregate purchase price of the senior notes validly tendered and not validly withdrawn as of the early tender time exceeded the 2021 Maximum Tender Amount, we did not accept for purchase any of the 3.500% senior notes due June 2022 or the 4.000% senior notes due June 2023. The aggregate principal amount of senior notes validly tendered and accepted was approximately \$900 million.

In June 2021, KHFC commenced cash tender offers to purchase up to the maximum combined aggregate purchase price of \$2.8 billion, including principal and premium but excluding accrued and unpaid interest, of its 5.000% senior notes due June 2042, 5.000% senior notes due July 2035, 4.625% senior notes due January 2029, 4.625% senior notes due October 2039, 3.750% senior notes due April 2030, 6.500% senior notes due February 2040, 6.375% senior notes due July 2028, 6.750% senior notes due March 2032, 6.875% senior notes due January 2039, and 7.125% senior notes due August 2039 (the “Q2 2021 Tender Offers” and, together with the Q1 2021 Tender Offer, the “2021 Tender Offers”), listed in order of priority. KHFC settled the Q2 2021 Tender Offers on June 14, 2021 and June 16, 2021. The aggregate principal amount of senior notes validly tendered and accepted was approximately \$1.4 billion.

See Note 15, *Commitments, Contingencies, and Debt*, to our condensed consolidated financial statements in our Quarterly Report on Form 10-Q for the quarterly period ended September 25, 2021 for the amount extinguished by senior notes in the 2021 Tender Offers during the nine month period ended September 25, 2021.

Related to the 2021 Tender Offers, we recognized a loss on extinguishment of debt of \$362 million within interest expense on the condensed consolidated statement of income for the nine months ended September 25, 2021, which included a loss of \$106 million in the first quarter of 2021 related to the Q1 2021 Tender Offer and a loss of \$256 million in the second quarter of 2021 related to the Q2 2021 Tender Offers. These losses primarily reflect the payment of early tender premiums and fees associated with the 2021 Tender Offers as well as the write-off of unamortized premiums, debt issuance costs, and discounts. Related to the 2021 Tender Offers, we recognized debt prepayment and extinguishment costs of \$369 million on the condensed consolidated statement of cash flows for the nine months ended September 25, 2021, which reflects the \$362 million loss on extinguishment of debt adjusted for the non-cash write-off of unamortized premiums of \$20 million, unamortized debt issuance costs of \$7 million and unamortized discounts of \$6 million.

***Debt Redemptions:***

***2021 Debt Redemptions***

In April 2021, KHFC issued a notice of redemption of all of its 4.000% senior notes due June 2023, effective May 1, 2021 (the “Q2 2021 Debt Redemption”). Prior to the Q2 2021 Debt Redemption, approximately \$447 million aggregate principal amount was outstanding.

In June 2021, KHFC issued a notice of redemption of all of its 3.950% senior notes due July 2025, effective July 14, 2021 (the “Q3 2021 Debt Redemption” and, together with the Q2 2021 Debt Redemption, the “2021 Debt Redemptions”). Prior to the Q3 2021 Debt Redemption, approximately \$797 million aggregate principal amount was outstanding.

In connection with the 2021 Debt Redemptions, we recognized a loss on extinguishment of debt of \$129 million within interest expense on the condensed consolidated statements of income for the nine months ended September 25, 2021, which included a loss of \$34 million in the second quarter of 2021 related to the Q2 2021 Debt Redemption and a loss of \$95 million in the third quarter of 2021 related to the Q3 2021 Debt Redemption. These losses primarily reflect the payment of premiums and fees associated with the redemptions as well as the write-off of unamortized debt issuance costs. Related to the 2021 Debt Redemptions, we recognized debt prepayment and extinguishment costs of \$126 million on the condensed consolidated statement of cash flows for the nine months ended September 25, 2021, which reflect the \$129 million loss on extinguishment of debt adjusted for the non-cash write-off of unamortized debt issuance costs of \$3 million.

***Debt Repayments:***

In August 2022, we repaid \$315 million aggregate principal amount of floating rate senior notes that matured in the period.

In June 2022, we repaid \$381 million aggregate principal amount of senior notes that matured in the period.

In March 2022, we repaid \$6 million aggregate principal amount of senior notes that matured in the period.

In September 2021, we repaid \$34 million aggregate principal amount of senior notes that matured in the period.

In February 2021, we repaid \$111 million aggregate principal amount of senior notes that matured in the period.

***Fair Value of Debt:***

At September 24, 2022, the aggregate fair value of our total debt was \$18.4 billion as compared with a carrying value of \$20.1 billion. At December 25, 2021, the aggregate fair value of our total debt was \$25.7 billion as compared with a carrying value of \$21.8 billion. Our short-term debt had a carrying value that approximated its fair value at September 24, 2022 and December 25, 2021. We determined the fair value of our long-term debt using Level 2 inputs. Fair values are generally estimated based on quoted market prices for identical or similar instruments.

**Note 15. Earnings Per Share**

Our earnings per common share ("EPS") were:

	For the Three Months Ended		For the Nine Months Ended	
	September 24, 2022	September 25, 2021	September 24, 2022	September 25, 2021
(in millions, except per share data)				
<b>Basic Earnings Per Common Share:</b>				
Net income/(loss) attributable to common shareholders	\$ 432	\$ 733	\$ 1,473	\$ 1,269
Weighted average shares of common stock outstanding	1,227	1,225	1,226	1,224
Net earnings/(loss)	\$ 0.35	\$ 0.60	\$ 1.20	\$ 1.04
<b>Diluted Earnings Per Common Share:</b>				
Net income/(loss) attributable to common shareholders	\$ 432	\$ 733	\$ 1,473	\$ 1,269
Weighted average shares of common stock outstanding	1,227	1,225	1,226	1,224
Effect of dilutive equity awards	8	11	9	11
Weighted average shares of common stock outstanding, including dilutive effect	1,235	1,236	1,235	1,235
Net earnings/(loss)	\$ 0.35	\$ 0.59	\$ 1.19	\$ 1.03

We use the treasury stock method to calculate the dilutive effect of outstanding equity awards in the denominator for diluted EPS. Anti-dilutive shares were 8 million for the three months and 7 million for the nine months ended September 24, 2022 and 8 million for the three months and 7 million for the nine months ended September 25, 2021.

**Note 16. Segment Reporting**

In the second quarter of 2022, our internal reporting and reportable segments changed. We combined our United States and Canada zones to form the North America zone as a result of previously announced organizational changes, which are intended to advance and support our long-term growth plans by streamlining and synergizing our United States and Canada businesses. Subsequently, we manage and report our operating results through two reportable segments defined by geographic region: North America and International. We have reflected this change in all historical periods presented.

Management evaluates segment performance based on several factors, including net sales and Segment Adjusted EBITDA. Segment Adjusted EBITDA is defined as net income/(loss) from continuing operations before interest expense, other expense/(income), provision for/(benefit from) income taxes, and depreciation and amortization (excluding restructuring activities); in addition to these adjustments, we exclude, when they occur, the impacts of divestiture-related license income (e.g., income related to the sale of licenses in connection with the Cheese Transaction), restructuring activities, deal costs, unrealized gains/(losses) on commodity hedges (the unrealized gains and losses are recorded in general corporate expenses until realized; once realized, the gains and losses are recorded in the applicable segment's operating results), impairment losses, certain non-ordinary course legal and regulatory matters, and equity award compensation expense (excluding restructuring activities). Segment Adjusted EBITDA is a tool that can assist management and investors in comparing our performance on a consistent basis by removing the impact of certain items that management believes do not directly reflect our underlying operations. Management also uses Segment Adjusted EBITDA to allocate resources.

Management does not use assets by segment to evaluate performance or allocate resources. Therefore, we do not disclose assets by segment.

Net sales by segment were (in millions):

	For the Three Months Ended		For the Nine Months Ended	
	September 24, 2022	September 25, 2021	September 24, 2022	September 25, 2021
Net sales:				
North America	\$ 5,016	\$ 4,941	\$ 14,656	\$ 15,143
International	1,489	1,383	4,448	4,190
Total net sales	\$ 6,505	\$ 6,324	\$ 19,104	\$ 19,333

Segment Adjusted EBITDA was (in millions):

	For the Three Months Ended		For the Nine Months Ended	
	September 24, 2022	September 25, 2021	September 24, 2022	September 25, 2021
Segment Adjusted EBITDA:				
North America	\$ 1,213	\$ 1,273	\$ 3,734	\$ 4,131
International	243	252	733	821
General corporate expenses	(58)	(46)	(207)	(187)
Depreciation and amortization (excluding restructuring activities)	(227)	(228)	(676)	(677)
Divestiture-related license income	14	—	41	—
Restructuring activities	(8)	(15)	(38)	(52)
Deal costs	—	(2)	(8)	(8)
Unrealized gains/(losses) on commodity hedges	(84)	(27)	(65)	12
Impairment losses	(314)	—	(999)	(343)
Certain non-ordinary course legal and regulatory matters	—	—	—	(62)
Equity award compensation expense (excluding restructuring activities)	(28)	(51)	(107)	(155)
Operating income/(loss)	751	1,156	2,408	3,480
Interest expense	228	415	704	1,443
Other expense/(income)	(22)	(138)	(211)	(191)
Income/(loss) before income taxes	\$ 545	\$ 879	\$ 1,915	\$ 2,228

Net sales by platform were (in millions):

	For the Three Months Ended		For the Nine Months Ended	
	September 24, 2022	September 25, 2021	September 24, 2022	September 25, 2021
Taste Elevation	\$ 2,040	\$ 1,776	\$ 6,020	\$ 5,428
Fast Fresh Meals	1,468	1,687	4,300	4,955
Easy Meals Made Better	1,261	1,236	3,726	3,541
Real Food Snacking	367	332	1,023	1,454
Flavorful Hydration	516	440	1,527	1,345
Easy Indulgent Desserts	248	246	719	710
Other	605	607	1,789	1,900
Total net sales	\$ 6,505	\$ 6,324	\$ 19,104	\$ 19,333

In the fourth quarter of 2021, following the divestiture of certain of our global cheese businesses, we reorganized certain products within our platforms to reflect how we plan to manage our business going forward, including the role assigned to these products and platforms within our business. We have reflected these changes in all historical periods presented.

Net sales by product category were (in millions):

	For the Three Months Ended		For the Nine Months Ended	
	September 24, 2022	September 25, 2021	September 24, 2022	September 25, 2021
Condiments and sauces	\$ 2,048	\$ 1,789	\$ 6,012	\$ 5,432
Cheese and dairy	932	1,217	2,745	3,645
Ambient foods	730	724	2,136	2,059
Frozen and chilled foods	731	666	2,113	1,997
Meats and seafood	704	679	2,025	1,958
Refreshment beverages	516	443	1,530	1,352
Coffee	213	200	644	614
Infant and nutrition	94	115	305	341
Desserts, toppings, and baking	276	277	808	801
Nuts and salted snacks	—	6	—	458
Other	261	208	786	676
Total net sales	\$ 6,505	\$ 6,324	\$ 19,104	\$ 19,333

#### Note 17. Other Financial Data

##### Condensed Consolidated Statements of Income Information

Other expense/(income) consists of the following (in millions):

	For the Three Months Ended		For the Nine Months Ended	
	September 24, 2022	September 25, 2021	September 24, 2022	September 25, 2021
Amortization of postemployment benefit plans prior service costs/(credits)	\$ (4)	\$ (2)	\$ (11)	\$ (5)
Net pension and postretirement non-service cost/(benefit) <sup>(a)</sup>	(28)	(55)	(120)	(162)
Loss/(gain) on sale of business <sup>(b)</sup>	—	(76)	(1)	(11)
Interest income	(7)	(4)	(18)	(13)
Foreign exchange losses/(gains)	(117)	(26)	(254)	(56)
Derivative losses/(gains)	134	23	195	54
Other miscellaneous expense/(income)	—	2	(2)	2
Other expense/(income)	\$ (22)	\$ (138)	\$ (211)	\$ (191)

(a) Excludes amortization of postemployment benefit plans prior service costs/(credits).

(b) Includes a gain on the remeasurement of a disposal group that was reclassified as held and used in the third quarter of 2021.

We present all non-service cost components of net pension cost/(benefit) and net postretirement cost/(benefit) within other expense/(income) on our condensed consolidated statements of income. See Note 10, *Postemployment Benefits*, for additional information on these components, including any curtailments and settlements, as well as information on our prior service costs/(credits) amortization. See Note 4, *Acquisitions and Divestitures*, for additional information related to our loss/(gain) on sale of business. See Note 11, *Financial Instruments*, for information related to our derivative impacts.

Other expense/(income) was \$22 million of income for the three months ended September 24, 2022 compared to \$138 million of income for the three months ended September 25, 2021. This change was primarily driven by a \$134 million net loss on derivative activities in the third quarter of 2022 compared to a \$23 million net loss on derivative activities in the third quarter of 2021, a \$76 million net gain on sales of businesses in the third quarter of 2021, and a \$27 million decrease in net pension and postretirement non-service benefits compared to the prior year period. These impacts were partially offset by a \$117 million net foreign exchange gain in the third quarter of 2022 compared to a \$26 million net foreign exchange gain in the third quarter of 2021.

Other expense/(income) was \$211 million of income for the nine months ended September 24, 2022 compared to \$191 million of income for the nine months ended September 25, 2021. This change was primarily driven by a \$254 million net foreign exchange gain in 2022 compared to a \$56 million net foreign exchange gain in 2021. These impacts were partially offset by a \$195 million net loss on derivative activities in 2022 compared to a \$54 million net loss on derivative activities in 2021 and a \$42 million decrease in net pension and postretirement non-service benefits compared to the prior year.



## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

### Overview

#### **Objective:**

The following discussion provides an analysis of our financial condition and results of operations from management's perspective and should be read in conjunction with the condensed consolidated financial statements and related notes included in Item 1, *Financial Statements*, of this Quarterly Report on Form 10-Q. Our objective is to also provide discussion of material events and uncertainties known to management that are reasonably likely to cause reported financial information not to be indicative of future operating results or of future financial condition and to offer information that provides an understanding of our financial condition, results of operations, and cash flows.

#### **Description of the Company:**

We manufacture and market food and beverage products, including condiments and sauces, cheese and dairy, meals, meats, refreshment beverages, coffee, and other grocery products throughout the world.

In the second quarter of 2022, our internal reporting and reportable segments changed. We combined our United States and Canada zones to form the North America zone as a result of previously announced organizational changes, which are intended to advance and support our long-term growth plans by streamlining and synergizing our United States and Canada businesses. Subsequently, we manage and report our operating results through two reportable segments defined by geographic region: North America and International. We have reflected this change in all historical periods presented.

See Note 16, *Segment Reporting*, in Item 1, *Financial Statements*, for our financial information by segment.

#### **Acquisitions and Divestitures:**

We closed the Hemmer Acquisition in the second quarter of 2022, the Just Spices Acquisition in the first quarter of 2022, and the Assan Foods Acquisitions in the fourth quarter of 2021, each in our International segment. Additionally, we completed the Nuts Transaction in the second quarter of 2021 and the Cheese Transaction in the fourth quarter of 2021. The Nuts Transaction and the Cheese Transaction are not, individually or in the aggregate, considered a strategic shift that will have a major effect on our operations or financial results; therefore, the results of these businesses are included in continuing operations through the date of each sale in the prior year period. See Note 4, *Acquisitions and Divestitures*, in Item 1, *Financial Statements*, for additional information on our acquisition and divestiture activities.

#### **Russia and Ukraine Conflict:**

For the nine months ended September 24, 2022, approximately 1% of consolidated net sales, Adjusted EBITDA, and net income/(loss) were generated from our business in Russia. For the year ended December 25, 2021, approximately 1% of consolidated net sales were generated from our business in Russia, while Adjusted EBITDA and net income/(loss) were each insignificant. As of September 24, 2022, we had approximately 1,100 employees in Russia. We have no operations or employees in Ukraine and insignificant net sales through distributors. Further, we have experienced cost increases globally for certain commodities, including packaging materials, energy, soybean and vegetable oils, corn products, and wheat products due to overall market demand, inflationary pressures, and, in part, to the negative impact of the conflict between Russia and Ukraine on the global economy. We will continue to monitor the impact that this conflict has on our business; however, through the third quarter of 2022, the conflict between Russia and Ukraine has not had a material impact on our financial condition, results of operations, or cash flows.

### Items Affecting Comparability of Financial Results

#### **Impairment Losses:**

Our results of operations reflect goodwill impairment losses of \$444 million, intangible asset impairment losses of \$469 million, and property, plant and equipment, net asset impairment losses of \$86 million for the nine months ended September 24, 2022 compared to goodwill impairment losses of \$265 million and intangible asset impairment losses of \$78 million for the nine months ended September 25, 2021. See Note 7, *Goodwill and Intangible Assets*, and Note 4, *Acquisitions and Divestitures*, in Item 1, *Financial Statements*, for additional information on these impairment losses.

***Inflation and Supply Chain Impacts:***

During the nine months ended September 24, 2022, we have continued to experience increasing commodity costs and supply chain costs, including logistics, procurement, and manufacturing costs, largely due to inflationary pressures, as compared to the prior year period. We expect this cost inflation to continue to remain elevated into 2023. While these costs have a negative impact on our results of operations, we are currently taking measures to mitigate, and expect to continue to take measures to mitigate, the impact of this inflation through pricing actions and efficiency gains. However, there has been, and we expect that there could continue to be, a difference between the timing of when these beneficial actions impact our results of operations and when the cost inflation is incurred. Additionally, the pricing actions we take have, in some instances, negatively impacted and could continue to negatively impact our market share.

Further, given the demand for our products combined with industry-wide supply chain issues and our focus on rebuilding inventory, we have experienced capacity constraints for certain products when demand has exceeded our current manufacturing capacity. As discussed in *Liquidity and Capital Resources*, we are working to expand capacity through increased capital investments. We are also focused on increasing capacity through labor-related initiatives, including additional shifts and temporary labor. However, until these capacity constraints are alleviated, these constraints have negatively impacted and could continue to negatively impact our service levels, market share, financial condition, results of operations, or cash flows.

We continue to observe a competitive labor market. Employee turnover, changes in the availability of our workers, and labor shortages in our supply chain have resulted in, and could continue to result in, increased costs and have, and could again, impact our ability to meet consumer demand, both of which could negatively affect our financial condition, results of operations, and cash flows.

**Results of Operations**

We disclose in this report certain non-GAAP financial measures. These non-GAAP financial measures assist management in comparing our performance on a consistent basis for purposes of business decision-making by removing the impact of certain items that management believes do not directly reflect our underlying operations. For additional information and reconciliations to the most closely comparable financial measures presented in our condensed consolidated financial statements, which are calculated in accordance with U.S. GAAP see *Non-GAAP Financial Measures*.

**Consolidated Results of Operations*****Summary of Results:***

	For the Three Months Ended			For the Nine Months Ended		
	September 24, 2022	September 25, 2021	% Change	September 24, 2022	September 25, 2021	% Change
	(in millions, except per share data)			(in millions, except per share data)		
Net sales	\$ 6,505	\$ 6,324	2.9 %	\$ 19,104	\$ 19,333	(1.2)%
Operating income/(loss)	751	1,156	(35.0)%	2,408	3,480	(30.8)%
Net income/(loss)	435	736	(40.8)%	1,481	1,279	15.8 %
Net income/(loss) attributable to common shareholders	432	733	(41.0)%	1,473	1,269	16.1 %
Diluted EPS	0.35	0.59	(40.7)%	1.19	1.03	15.5 %

***Net Sales:***

	For the Three Months Ended			For the Nine Months Ended		
	September 24, 2022	September 25, 2021	% Change	September 24, 2022	September 25, 2021	% Change
	(in millions)			(in millions)		
Net sales	\$ 6,505	\$ 6,324	2.9 %	\$ 19,104	\$ 19,333	(1.2)%
Organic Net Sales <sup>(a)</sup>	6,582	5,898	11.6 %	19,244	17,572	9.5 %

(a) Organic Net Sales is a non-GAAP financial measure. See the *Non-GAAP Financial Measures* section at the end of this item.

*Three Months Ended September 24, 2022 Compared to the Three Months Ended September 25, 2021:*

Net sales increased 2.9% to \$6.5 billion for the three months ended September 24, 2022 compared to \$6.3 billion for the three months ended September 25, 2021, including the unfavorable impacts of acquisitions and divestitures (6.4 pp) and foreign currency (2.3 pp). Organic Net Sales increased 11.6% to \$6.6 billion for the three months ended September 24, 2022 compared to \$5.9 billion for the three months ended September 25, 2021, primarily driven by higher pricing (15.4 pp), which more than offset unfavorable volume/mix (3.8 pp). Pricing was higher in both segments, while volume/mix was unfavorable in both segments.

*Nine Months Ended September 24, 2022 Compared to the Nine Months Ended September 25, 2021:*

Net sales decreased 1.2% to \$19.1 billion for the nine months ended September 24, 2022 compared to \$19.3 billion for the nine months ended September 25, 2021, including the unfavorable impacts of acquisitions and divestitures (9.0 pp) and foreign currency (1.7 pp). Organic Net Sales increased 9.5% to \$19.2 billion for the nine months ended September 24, 2022 compared to \$17.6 billion for the nine months ended September 25, 2021, primarily driven by higher pricing (12.3 pp), which more than offset unfavorable volume/mix (2.8 pp). Pricing was higher in both segments, while volume/mix was unfavorable in both segments.

**Net Income/(Loss):**

	For the Three Months Ended			For the Nine Months Ended		
	September 24, 2022	September 25, 2021	% Change	September 24, 2022	September 25, 2021	% Change
	(in millions)			(in millions)		
Operating income/(loss)	\$ 751	\$ 1,156	(35.0)%	2,408	3,480	(30.8)%
Net income/(loss)	435	736	(40.8)%	1,481	1,279	15.8 %
Net income/(loss) attributable to common shareholders	432	733	(41.0)%	1,473	1,269	16.1 %
Adjusted EBITDA <sup>(a)</sup>	1,398	1,479	(5.5)%	4,260	4,765	(10.6)%

(a) Adjusted EBITDA is a non-GAAP financial measure. See the *Non-GAAP Financial Measures* section at the end of this item.

*Three Months Ended September 24, 2022 Compared to the Three Months Ended September 25, 2021:*

Operating income/(loss) decreased 35.0% to \$751 million for the three months ended September 24, 2022 compared to \$1.2 billion for the three months ended September 25, 2021, primarily due to higher supply chain costs, reflecting inflationary pressure in procurement, logistics, and manufacturing costs; higher commodity costs (mainly in dairy, packaging materials, soybean and vegetable oils, and energy); higher non-cash impairment losses in the current year period; the unfavorable impact of acquisitions and divestitures; unfavorable volume/mix; and higher unrealized losses on commodity hedges in the current year period. These decreases to operating income/(loss) more than offset higher pricing and efficiency gains compared to the prior year period.

Net income/(loss) decreased 40.8% to income of \$435 million for the three months ended September 24, 2022 compared to \$736 million for the three months ended September 25, 2021. This decrease was due to the operating income/(loss) factors discussed above and unfavorable changes in other expense/(income), which more than offset lower interest expense and lower tax expense.

- Other expense/(income) was \$22 million of income for the three months ended September 24, 2022 compared to \$138 million of income for the three months ended September 25, 2021. This change was primarily driven by a \$134 million net loss on derivative activities in the third quarter of 2022 compared to a \$23 million net loss on derivative activities in the third quarter of 2021, a \$76 million net gain on sales of businesses in the third quarter of 2021, and a \$27 million decrease in net pension and postretirement non-service benefits compared to the prior year period. These impacts were partially offset by a \$117 million net foreign exchange gain in the third quarter of 2022 compared to a \$26 million net foreign exchange gain in the third quarter of 2021.
- Interest expense was \$228 million for the three months ended September 24, 2022 compared to \$415 million for the three months ended September 25, 2021. This decrease was primarily due to a \$3 million net gain on extinguishment of debt recognized in the current period in connection with the Q3 2022 Repurchases compared to a \$147 million loss on extinguishment of debt recognized in the prior year period in connection with the Q3 2021 Debt Redemption and the Q3 2021 Repurchases. The remaining change in interest expense was a decrease of approximately \$37 million compared to the prior year period, as our aggregate principal amount of senior notes was reduced by approximately \$6.2 billion in 2021 through tender offers, redemptions, repurchases, and repayments and approximately \$1.2 billion in 2022 through repurchases and repayments.

- Our effective tax rate for the three months ended September 24, 2022 was an expense of 20.2% on pre-tax income. Our effective tax rate was impacted by the favorable geographic mix of pre-tax income in various non-U.S. jurisdictions and certain favorable net discrete items, including the revaluation of deferred tax balances due to changes in state tax rates and favorable changes in estimates of certain 2021 U.S. income and deductions. These impacts were partially offset by the impact of certain unfavorable net discrete items, primarily non-deductible goodwill impairments (10.3%). Our effective tax rate for the three months ended September 25, 2021 was an expense of 16.2% on pre-tax income. Our effective tax rate was impacted by a favorable geographic mix of pre-tax income in various non-U.S. jurisdictions and certain favorable net discrete items, primarily the tax impact related to a business in our International segment that no longer met the held for sale criteria and the revaluation of our deferred tax balances due to changes in state tax rates.

Adjusted EBITDA decreased 5.5% to \$1.4 billion for the three months ended September 24, 2022 compared to \$1.5 billion for the three months ended September 25, 2021, primarily due to higher supply chain costs, reflecting inflationary pressure in procurement, logistics, and manufacturing costs; higher commodity costs (mainly in dairy, packaging materials, soybean and vegetable oils, and energy); the unfavorable impact of acquisitions and divestitures (6.1 pp); unfavorable volume/mix; and the unfavorable impact of foreign currency (1.4 pp), which more than offset higher pricing and efficiency gains.

*Nine Months Ended September 24, 2022 Compared to the Nine Months Ended September 25, 2021:*

Operating income/(loss) decreased 30.8% to \$2.4 billion for the nine months ended September 24, 2022 compared to \$3.5 billion for the nine months ended September 25, 2021, primarily due to higher commodity costs (mainly in dairy, packaging materials, soybean and vegetable oils, meat, and energy); higher supply chain costs, reflecting inflationary pressure in procurement, logistics, and manufacturing costs; higher non-cash impairment losses in the current year period; the unfavorable impact of acquisitions and divestitures; and unfavorable volume/mix, which more than offset higher pricing and efficiency gains.

Net income/(loss) increased 15.8% to \$1.5 billion for the nine months ended September 24, 2022 compared to \$1.3 billion for the nine months ended September 25, 2021. This increase was driven by lower interest expense, lower tax expense, and favorable changes in other expense/(income), which more than offset the operating income/(loss) factors discussed above.

- Interest expense was \$704 million for the nine months ended September 24, 2022 compared to \$1.4 billion for the nine months ended September 25, 2021. This decrease was primarily due to a \$12 million net gain on extinguishment of debt recognized in the current year period in connection with the 2022 Repurchases compared to a \$571 million loss on extinguishment of debt recognized in the prior year period in connection with the 2021 Tender Offers, the 2021 Debt Redemptions, and the 2021 Repurchases. The remaining change in interest expense was a decrease of approximately \$156 million compared to the prior year period, as our aggregate principal amount of senior notes was reduced by approximately \$6.2 billion in 2021 through tender offers, redemptions, repurchases, and repayments and approximately \$1.2 billion in 2022 through repurchases and repayments.
- Our effective tax rate for the nine months ended September 24, 2022 was an expense of 22.7% on pre-tax income. Our effective tax rate was impacted by the favorable geographic mix of pre-tax income in various non-U.S. jurisdictions and certain favorable net discrete items, primarily the revaluation of deferred tax balances due to changes in state tax rates. This impact was partially offset by the impact of certain unfavorable net discrete items, primarily non-deductible goodwill impairments (6.1%). Our effective tax rate for the nine months ended September 25, 2021 was an expense of 42.6% on pre-tax income. Our effective tax rate was unfavorably impacted by certain net discrete items, primarily the tax impact related to the Nuts Transaction (13.0%), the revaluation of our deferred tax balances due to changes in international and state tax rates (9.0%), mainly an increase in U.K. tax rates, and non-deductible goodwill impairments (3.2%). These impacts were partially offset by a favorable geographic mix of pre-tax income in various non-U.S. jurisdictions and the impact of certain net discrete items, including the reversal of uncertain tax position reserves in certain U.S. state and non-U.S. jurisdictions.
- Other expense/(income) was \$211 million of income for the nine months ended September 24, 2022 compared to \$191 million of income for the nine months ended September 25, 2021. This change was primarily driven by a \$254 million net foreign exchange gain in 2022 compared to a \$56 million net foreign exchange gain in 2021. These impacts were partially offset by a \$195 million net loss on derivative activities in 2022 compared to a \$54 million net loss on derivative activities in 2021 and a \$42 million decrease in net pension and postretirement non-service benefits compared to the prior year.

Adjusted EBITDA decreased 10.6% to \$4.3 billion for the nine months ended September 24, 2022 compared to \$4.8 billion for the nine months ended September 25, 2021, primarily due to higher commodity costs (mainly in dairy, packaging materials, soybean and vegetable oils, meat, and energy); higher supply chain costs, reflecting inflationary pressure in procurement, logistics, and manufacturing costs; the unfavorable impact of acquisitions and divestitures (6.3 pp); unfavorable volume/mix; and the unfavorable impact of foreign currency (1.0 pp), which more than offset higher pricing and efficiency gains.

**Diluted EPS:**

	For the Three Months Ended			For the Nine Months Ended		
	September 24, 2022	September 25, 2021	% Change	September 24, 2022	September 25, 2021	% Change
Diluted EPS	\$ 0.35	\$ 0.59	(40.7)%	\$ 1.19	\$ 1.03	15.5 %
Adjusted EPS <sup>(a)</sup>	0.63	0.65	(3.1)%	1.93	2.15	(10.2)%

(a) Adjusted EPS is a non-GAAP financial measure. See the *Non-GAAP Financial Measures* section at the end of this item.

*Three Months Ended September 24, 2022 Compared to the Three Months Ended September 25, 2021:*

Diluted EPS decreased 40.7% to \$0.35 for the three months ended September 24, 2022 compared to \$0.59 for the three months ended September 25, 2021, primarily due to the net income/(loss) factors discussed above.

	For the Three Months Ended			
	September 24, 2022	September 25, 2021	\$ Change	% Change
Diluted EPS	\$ 0.35	\$ 0.59	\$ (0.24)	(40.7)%
Restructuring activities	0.01	0.01	—	
Unrealized losses/(gains) on commodity hedges	0.05	0.02	0.03	
Impairment losses	0.23	—	0.23	
Losses/(gains) on sale of business	(0.01)	(0.06)	0.05	
Nonmonetary currency devaluation	0.01	—	0.01	
Debt prepayment and extinguishment costs	(0.01)	0.09	(0.10)	
Adjusted EPS <sup>(a)</sup>	\$ 0.63	\$ 0.65	\$ (0.02)	(3.1)%
Key drivers of change in Adjusted EPS <sup>(a)</sup> :				
Results of operations			\$ 0.03	
Results of divested operations			(0.06)	
Interest expense			0.03	
Other expense/(income)			(0.02)	
			\$ (0.02)	

(a) Adjusted EPS is a non-GAAP financial measure. See the *Non-GAAP Financial Measures* section at the end of this item.

Adjusted EPS decreased 3.1% to \$0.63 for the three months ended September 24, 2022 compared to \$0.65 for the three months ended September 25, 2021. This decrease was primarily due to lower Adjusted EBITDA, which includes the unfavorable impact of our divestitures, and unfavorable changes in other expense/(income), which more than offset lower interest expense and lower equity award compensation expense.

*Nine Months Ended September 24, 2022 Compared to the Nine Months Ended September 25, 2021:*

Diluted EPS increased 15.5% to \$1.19 for the nine months ended September 24, 2022 compared to \$1.03 for the nine months ended September 25, 2021, primarily driven by the net income/(loss) factors discussed above.

	For the Nine Months Ended			
	September 24, 2022	September 25, 2021	\$ Change	% Change
Diluted EPS	\$ 1.19	\$ 1.03	\$ 0.16	15.5 %
Restructuring activities	0.02	0.03	(0.01)	
Deal costs	0.01	—	0.01	
Unrealized losses/(gains) on commodity hedges	0.04	(0.01)	0.05	
Impairment losses	0.70	0.26	0.44	
Certain non-ordinary course legal and regulatory matters	—	0.05	(0.05)	
Losses/(gains) on sale of business	(0.01)	0.23	(0.24)	
Other losses/(gains) related to acquisitions and divestitures	(0.02)	—	(0.02)	
Nonmonetary currency devaluation	0.01	—	0.01	
Debt prepayment and extinguishment costs	(0.01)	0.37	(0.38)	
Certain significant discrete income tax items	—	0.19	(0.19)	
Adjusted EPS <sup>(a)</sup>	\$ 1.93	\$ 2.15	\$ (0.22)	(10.2)%
Key drivers of change in Adjusted EPS <sup>(a)</sup> :				
Results of operations			\$ (0.07)	
Results of divested operations			(0.20)	
Interest expense			0.10	
Effective tax rate			(0.05)	
			\$ (0.22)	

(a) Adjusted EPS is a non-GAAP financial measure. See the *Non-GAAP Financial Measures* section at the end of this item.

Adjusted EPS decreased 10.2% to \$1.93 for the nine months ended September 24, 2022 compared to \$2.15 for the nine months ended September 25, 2021. This decrease was primarily due to lower Adjusted EBITDA, which includes the unfavorable impact of our divestitures, and higher taxes on adjusted earnings, which more than offset lower interest expense, lower equity award compensation expense, and higher divestiture-related license income.

#### Results of Operations by Segment

Management evaluates segment performance based on several factors, including net sales, Organic Net Sales, and Segment Adjusted EBITDA. Segment Adjusted EBITDA is defined as net income/(loss) from continuing operations before interest expense, other expense/(income), provision for/(benefit from) income taxes, and depreciation and amortization (excluding restructuring activities); in addition to these adjustments, we exclude, when they occur, the impacts of divestiture-related license income (e.g., income related to the sale of licenses in connection with the Cheese Transaction), restructuring activities, deal costs, unrealized gains/(losses) on commodity hedges (the unrealized gains and losses are recorded in general corporate expenses until realized; once realized, the gains and losses are recorded in the applicable segment's operating results), impairment losses, certain non-ordinary course legal and regulatory matters, and equity award compensation expense (excluding restructuring activities). Segment Adjusted EBITDA is a tool that can assist management and investors in comparing our performance on a consistent basis by removing the impact of certain items that management believes do not directly reflect our underlying operations.

Under highly inflationary accounting, the financial statements of a subsidiary are remeasured into our reporting currency (U.S. dollars) based on the legally available exchange rate at which we expect to settle the underlying transactions. Exchange gains and losses from the remeasurement of monetary assets and liabilities are reflected in other expense/(income) on our condensed consolidated statement of income, as nonmonetary currency devaluation, rather than accumulated other comprehensive income/(losses) on our condensed consolidated balance sheet, until such time as the economy is no longer considered highly inflationary. See Note 2, *Significant Accounting Policies*, to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 25, 2021, for additional information. We apply highly inflationary accounting to the results of our subsidiaries in Venezuela, Argentina, and Turkey, which are all in our International segment.

**Net Sales:**

	For the Three Months Ended		For the Nine Months Ended	
	September 24, 2022	September 25, 2021	September 24, 2022	September 25, 2021
(in millions)				
Net sales:				
North America	\$ 5,016	\$ 4,941	\$ 14,656	\$ 15,143
International	1,489	1,383	4,448	4,190
Total net sales	<u>\$ 6,505</u>	<u>\$ 6,324</u>	<u>\$ 19,104</u>	<u>\$ 19,333</u>

**Organic Net Sales:**

	For the Three Months Ended		For the Nine Months Ended	
	September 24, 2022	September 25, 2021	September 24, 2022	September 25, 2021
(in millions)				
Organic Net Sales <sup>(a)</sup> :				
North America	\$ 5,030	\$ 4,537	\$ 14,688	\$ 13,450
International	1,552	1,361	4,556	4,122
Total Organic Net Sales	<u>\$ 6,582</u>	<u>\$ 5,898</u>	<u>\$ 19,244</u>	<u>\$ 17,572</u>

(a) Organic Net Sales is a non-GAAP financial measure. See the *Non-GAAP Financial Measures* section at the end of this item.

Drivers of the changes in net sales and Organic Net Sales for the three and nine months ended September 24, 2022 compared to the three and nine months ended September 25, 2021 were:

	Net Sales	Currency	Acquisitions and Divestitures	Organic Net Sales	Price	Volume/Mix
<b>For the Three Months Ended</b>						
North America	1.5 %	(0.3) pp	(9.1) pp	10.9 %	15.3 pp	(4.4) pp
International	7.7 %	(9.8) pp	3.6 pp	13.9 %	15.7 pp	(1.8) pp
Kraft Heinz	2.9 %	(2.3) pp	(6.4) pp	11.6 %	15.4 pp	(3.8) pp
	Net Sales	Currency	Acquisitions and Divestitures	Organic Net Sales	Price	Volume/Mix
<b>For the Nine Months Ended</b>						
North America	(3.2)%	(0.2) pp	(12.2) pp	9.2 %	12.6 pp	(3.4) pp
International	6.2 %	(7.2) pp	2.9 pp	10.5 %	11.6 pp	(1.1) pp
Kraft Heinz	(1.2)%	(1.7) pp	(9.0) pp	9.5 %	12.3 pp	(2.8) pp

**Adjusted EBITDA:**

	For the Three Months Ended		For the Nine Months Ended	
	September 24, 2022	September 25, 2021	September 24, 2022	September 25, 2021
	(in millions)			
Segment Adjusted EBITDA:				
North America	\$ 1,213	\$ 1,273	\$ 3,734	\$ 4,131
International	243	252	733	821
General corporate expenses	(58)	(46)	(207)	(187)
Depreciation and amortization (excluding restructuring activities)	(227)	(228)	(676)	(677)
Divestiture-related license income	14	—	41	—
Restructuring activities	(8)	(15)	(38)	(52)
Deal costs	—	(2)	(8)	(8)
Unrealized gains/(losses) on commodity hedges	(84)	(27)	(65)	12
Impairment losses	(314)	—	(999)	(343)
Certain non-ordinary course legal and regulatory matters	—	—	—	(62)
Equity award compensation expense (excluding restructuring activities)	(28)	(51)	(107)	(155)
Operating income/(loss)	751	1,156	2,408	3,480
Interest expense	228	415	704	1,443
Other expense/(income)	(22)	(138)	(211)	(191)
Income/(loss) before income taxes	\$ 545	\$ 879	\$ 1,915	\$ 2,228

**North America:**

	For the Three Months Ended			For the Nine Months Ended		
	September 24, 2022	September 25, 2021	% Change	September 24, 2022	September 25, 2021	% Change
	(in millions)			(in millions)		
Net sales	\$ 5,016	\$ 4,941	1.5 %	\$ 14,656	\$ 15,143	(3.2) %
Organic Net Sales <sup>(a)</sup>	5,030	4,537	10.9 %	14,688	13,450	9.2 %
Segment Adjusted EBITDA	1,213	1,273	(4.8) %	3,734	4,131	(9.6) %

(a) Organic Net Sales is a non-GAAP financial measure. See the *Non-GAAP Financial Measures* section at the end of this item.

**Three Months Ended September 24, 2022 Compared to the Three Months Ended September 25, 2021:**

Net sales increased 1.5% to \$5.0 billion for the three months ended September 24, 2022 compared to \$4.9 billion for the three months ended September 25, 2021, including the unfavorable impacts of divestitures (9.1 pp) and foreign currency (0.3 pp). Organic Net Sales increased 10.9% to \$5.0 billion for the three months ended September 24, 2022 compared to \$4.5 billion for the three months ended September 25, 2021, driven by higher pricing (15.3 pp), which more than offset unfavorable volume/mix (4.4 pp). Higher pricing was primarily driven by increases to mitigate rising input costs. Unfavorable volume/mix was primarily due to declines in meat, frozen, foodservice, condiments and sauces, and coffee, which more than offset increases in refrigerated meal combinations.

Segment Adjusted EBITDA decreased 4.8% to \$1.2 billion for the three months ended September 24, 2022 compared to \$1.3 billion for the three months ended September 25, 2021, primarily due to higher supply chain costs, reflecting inflationary pressure in procurement, logistics, and manufacturing costs; higher commodity costs (mainly in dairy, packaging materials, and soybean and vegetable oils); the unfavorable impact of the Cheese Transaction (6.7 pp); unfavorable volume/mix; and the unfavorable impact of foreign currency (0.2 pp). These decreases to Segment Adjusted EBITDA more than offset higher pricing and efficiency gains.



*Nine Months Ended September 24, 2022 Compared to the Nine Months Ended September 25, 2021:*

Net sales decreased 3.2% to \$14.7 billion for the three months ended September 24, 2022 compared to \$15.1 billion for the nine months ended September 25, 2021, including the unfavorable impacts of divestitures (12.2 pp) and foreign currency (0.2 pp). Organic Net Sales increased 9.2% to \$14.7 billion for the nine months ended September 24, 2022 compared to \$13.5 billion for the nine months ended September 25, 2021, driven by higher pricing (12.6 pp), which more than offset unfavorable volume/mix (3.4 pp). Higher pricing was primarily driven by increases to mitigate rising input costs. Unfavorable volume/mix was primarily due to declines in frozen, meat, condiments and sauces, coffee, desserts, and powdered beverages, which more than offset increases in refrigerated meal combinations and foodservice.

Segment Adjusted EBITDA decreased 9.6% to \$3.7 billion for the nine months ended September 24, 2022 compared to \$4.1 billion for the nine months ended September 25, 2021, primarily due to higher commodity costs (mainly in dairy, packaging materials, meat, and soybean and vegetable oils); higher supply chain costs, reflecting inflationary pressure in procurement, logistics, and manufacturing costs; the unfavorable impact of the Cheese Transaction and Nuts Transaction (7.3 pp); unfavorable volume/mix; and the unfavorable impact of foreign currency (0.1 pp). These decreases to Segment Adjusted EBITDA more than offset higher pricing and efficiency gains.

**International:**

	For the Three Months Ended			For the Nine Months Ended		
	September 24, 2022	September 25, 2021	% Change	September 24, 2022	September 25, 2021	% Change
	(in millions)			(in millions)		
Net sales	\$ 1,489	\$ 1,383	7.7 %	\$ 4,448	\$ 4,190	6.2 %
Organic Net Sales <sup>(a)</sup>	1,552	1,361	13.9 %	4,556	4,122	10.5 %
Segment Adjusted EBITDA	243	252	(3.7) %	733	821	(10.8)%

(a) Organic Net Sales is a non-GAAP financial measure. See the *Non-GAAP Financial Measures* section at the end of this item.

*Three Months Ended September 24, 2022 Compared to the Three Months Ended September 25, 2021:*

Net sales increased 7.7% to \$1.5 billion for the three months ended September 24, 2022 compared to \$1.4 billion for the three months ended September 25, 2021, including the favorable impact of acquisitions and divestitures (3.6 pp) and the unfavorable impact of foreign currency (9.8 pp). Organic Net Sales increased 13.9% to \$1.6 billion for the three months ended September 24, 2022 compared to \$1.4 billion for the three months ended September 25, 2021, driven by higher pricing (15.7 pp), which more than offset unfavorable volume/mix (1.8 pp). Higher pricing included increases across markets primarily to mitigate rising input costs. Unfavorable volume/mix was primarily due to declines across categories in Australia and New Zealand and declines in boxed dinners in the United Kingdom, which more than offset higher foodservice sales across most markets and growth in condiments and sauces in China.

Segment Adjusted EBITDA decreased 3.7% to \$243 million for the three months ended September 24, 2022 compared to \$252 million for the three months ended September 25, 2021, primarily due to higher supply chain costs, reflecting inflationary pressure in procurement, manufacturing, and logistics costs; higher commodity costs, including in packaging and energy; and the unfavorable impact of foreign currency (8.6 pp), which more than offset higher pricing and efficiency gains.

*Nine Months Ended September 24, 2022 Compared to the Nine Months Ended September 25, 2021:*

Net sales increased 6.2% to \$4.4 billion for the nine months ended September 24, 2022 compared to \$4.2 billion for the nine months ended September 25, 2021, including the favorable impact of acquisitions and divestitures (2.9 pp) and the unfavorable impact of foreign currency (7.2 pp). Organic Net Sales increased 10.5% to \$4.6 billion for the nine months ended September 24, 2022 compared to \$4.1 billion for the nine months ended September 25, 2021, driven by higher pricing (11.6 pp), which more than offset unfavorable volume/mix (1.1 pp). Higher pricing included increases across markets primarily to mitigate rising input costs. Unfavorable volume/mix was primarily due to declines across categories in Australia and New Zealand and declines in boxed dinners and condiments and sauces in the United Kingdom, which more than offset higher foodservice sales across most markets and growth in Brazil.

Segment Adjusted EBITDA decreased 10.8% to \$733 million for the nine months ended September 24, 2022 compared to \$821 million for the nine months ended September 25, 2021, primarily due to higher supply chain costs, reflecting inflationary pressure in procurement, manufacturing, and logistics costs; higher commodity costs, including in packaging and energy; the unfavorable impact of foreign currency (5.9 pp); and unfavorable volume/mix, which more than offset higher pricing and efficiency gains.

## **Liquidity and Capital Resources**

We believe that cash generated from our operating activities, commercial paper programs, and our Senior Credit Facility will provide sufficient liquidity to meet our working capital needs, repayments of long-term debt, future contractual obligations, payment of our anticipated quarterly dividends, planned capital expenditures, restructuring expenditures, and contributions to our postemployment benefit plans for the next 12 months. An additional potential source of liquidity is access to capital markets. We intend to use our cash on hand and commercial paper programs for daily funding requirements.

### ***Acquisitions and Divestitures:***

In the first quarter of 2022, we closed the Just Spices Acquisition for cash consideration of approximately \$243 million. In the second quarter of 2022, we closed the Hemmer Acquisition for cash consideration of approximately \$279 million.

In connection with the Cheese Transaction, which closed in the fourth quarter of 2021, we paid cash taxes of approximately \$620 million in the second quarter of 2022, primarily to U.S. federal and state tax authorities.

See Note 4, *Acquisitions and Divestitures*, in Item 1, *Financial Statements*, for additional information on our acquisitions and divestitures.

### ***Cash Flow Activity for the Nine Months Ended September 24, 2022 Compared to the Nine Months Ended September 25, 2021:***

#### ***Net Cash Provided by/Used for Operating Activities:***

Net cash provided by operating activities was \$1.5 billion for the nine months ended September 24, 2022 compared to \$2.4 billion for the nine months ended September 25, 2021. This decrease was primarily driven by higher cash outflows for inventories primarily related to stock rebuilding and increased input costs and lower Adjusted EBITDA. These impacts were partially offset by lower cash outflows for interest primarily due to prior year reduction of long-term debt and lower cash outflows for variable compensation in 2022 compared to 2021.

#### ***Net Cash Provided by/Used for Investing Activities:***

Net cash used for investing activities was \$1.0 billion for the nine months ended September 24, 2022 compared to net cash provided by investing activities of \$2.7 billion for the nine months ended September 25, 2021. This change was primarily driven by proceeds from the Nuts Transaction in the prior year period as well as payments for the Just Spices Acquisition and Hemmer Acquisition and working capital adjustments related to the Cheese Transaction in the current year period. Capital expenditures were largely flat year over year. We expect 2022 capital expenditures to be approximately \$1.0 billion as compared to 2021 capital expenditures of \$905 million. Our 2022 capital expenditures are primarily for capital investments, largely for capacity expansion and cost improvement projects, maintenance, and technology. See Note 4, *Acquisitions and Divestitures*, in Item 1, *Financial Statements*, for additional information on the Just Spices Acquisition, Hemmer Acquisition, the Nuts Transaction, and the Cheese Transaction.

#### ***Net Cash Provided by/Used for Financing Activities:***

Net cash used for financing activities was \$2.8 billion for the nine months ended September 24, 2022 compared to \$6.3 billion for the nine months ended September 25, 2021. This change was primarily due to higher repayments of long-term debt and debt prepayment and extinguishment costs in 2021 related to the 2021 Tender Offers, 2021 Repurchases, and 2021 Debt Redemptions. See Note 14, *Commitments, Contingencies, and Debt*, in Item 1, *Financial Statements*, for additional information on our debt repayments.

### ***Cash Held by International Subsidiaries:***

Of the \$1.0 billion cash and cash equivalents on our condensed consolidated balance sheet at September 24, 2022, \$817 million was held by international subsidiaries.

Subsequent to January 1, 2018, we consider the unremitted earnings of certain international subsidiaries that impose local country taxes on dividends to be indefinitely reinvested. For those undistributed earnings considered to be indefinitely reinvested, our intent is to reinvest these funds in our international operations, and our current plans do not demonstrate a need to repatriate the accumulated earnings to fund our U.S. cash requirements. The amount of unrecognized deferred tax liabilities for local country withholding taxes that would be owed related to our 2018 through 2022 accumulated earnings of certain international subsidiaries is approximately \$45 million.

Our undistributed historic earnings in foreign subsidiaries through December 30, 2017 are currently not considered to be indefinitely reinvested. Related to these undistributed historic earnings, we had recorded a deferred tax liability of approximately \$10 million on approximately \$130 million of historic earnings at September 24, 2022 and a deferred tax liability of approximately \$10 million on approximately \$135 million of historic earnings at December 25, 2021. The deferred tax liability relates to local withholding taxes that will be owed when this cash is distributed.

**Trade Payables Programs:**

In order to manage our cash flow and related liquidity, we work with our suppliers to optimize our terms and conditions, which include the extension of payment terms. Our current payment terms with our suppliers, which we deem to be commercially reasonable, generally range from 0 to 200 days. We also maintain agreements with third party administrators that allow participating suppliers to track payment obligations from us, and, at the sole discretion of the supplier, sell one or more of those payment obligations to participating financial institutions. We have no economic interest in a supplier's decision to enter into these agreements and no direct financial relationship with the financial institutions. Our obligations to our suppliers, including amounts due and scheduled payment terms, are not impacted. Supplier participation in these agreements is voluntary. We estimate that the amounts outstanding under these programs were \$880 million at September 24, 2022 and \$820 million at December 25, 2021.

**Product Financing Arrangements:**

We enter into various product financing arrangements to facilitate supply from our vendors. Beginning in the fourth quarter of 2022, we intend to wind-down our existing product financing arrangement, with final impacts of the wind-down expected to extend into 2023. We will continue to have access to these programs should we decide to facilitate supply from our vendors through these programs at a later time. See Note 13, *Financing Arrangements*, in Item 1, *Financial Statements*, for additional information on our product financing arrangements.

**Borrowing Arrangements:**

As of the date of this filing, our long-term debt is rated BBB- by S&P Global Ratings ("S&P") and Fitch Ratings ("Fitch") and Baa3 by Moody's Investor Services, Inc. ("Moody's"), with a positive outlook from S&P and a stable outlook from Fitch and Moody's. In February 2020, Fitch and S&P downgraded our long-term credit rating from BBB- to BB+. These downgrades adversely affected our ability to access the commercial paper market. These downgrades did not constitute a default or event of default under any of our debt instruments. Our ability to borrow under the Senior Credit Facility was not affected by the downgrades. Our long-term credit rating was upgraded from BB+ to BBB- by S&P in March 2022 and by Fitch in May 2022.

From time to time, we obtain funding through our U.S. commercial paper program. We had no commercial paper outstanding at September 24, 2022 or at December 25, 2021. The maximum amount of commercial paper outstanding during the nine months ended September 24, 2022 was \$198 million.

Our Senior Credit Facility provides for a revolving commitment of \$4.0 billion through July 8, 2027. Subject to certain conditions, we may increase the amount of revolving commitments and/or add tranches of term loans in a combined aggregate amount of up to \$1.0 billion.

No amounts were drawn on our Senior Credit Facility at September 24, 2022, our Previous Senior Credit Facility at December 25, 2021, or on either the Senior Credit Facility or Previous Senior Credit Facility during the nine months ended September 24, 2022 or September 25, 2021.

The Credit Agreement contains customary representations, warranties, and covenants that are typical for these types of facilities and could, upon the occurrence of certain events of default, restrict our ability to access our Senior Credit Facility.

We were in compliance with all financial covenants as of September 24, 2022.

**Long-Term Debt:**

Our long-term debt, including the current portion, was \$20.1 billion at September 24, 2022 and \$21.8 billion at December 25, 2021. This decrease was primarily due to the \$315 million aggregate principal amount of floating rate senior notes that were repaid at maturity in August 2022, the \$381 million aggregate principal amount of senior notes that were repaid at maturity in June 2022, the \$6 million aggregate principal amount of senior notes that were repaid at maturity in March 2022, and the approximately \$448 million aggregate principal amount of senior notes repurchased in connection with the 2022 Repurchases, as well as changes in foreign currency exchange rates on our foreign-denominated debt. We used cash on hand to fund the 2022 Repurchases and to pay fees and expenses in connection therewith.

We have aggregate principal amounts of senior notes of approximately 750 million euros maturing in June 2023.

We may from time to time seek to retire or purchase our outstanding debt through redemptions, tender offers, cash purchases, prepayments, refinancing, exchange offers, open market or privately-negotiated transactions, Rule 10b5-1 plans, or otherwise.

Our long-term debt contains customary representations, covenants, and events of default. We were in compliance with all financial covenants as of September 24, 2022.

See Note 14, *Commitments, Contingencies, and Debt*, in Item 1, *Financial Statements*, for additional information on our borrowing arrangements and our long-term debt activity and Note 17, *Debt*, to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 25, 2021 for additional information on our long-term debt.

**Equity and Dividends:**

We paid common stock dividends of \$1.5 billion for the nine months ended September 24, 2022 and \$1.5 billion for the nine months ended September 25, 2021. Additionally, in the fourth quarter of 2022, our Board of Directors declared a cash dividend of \$0.40 per share of common stock, which is payable on December 30, 2022 to stockholders of record on November 25, 2022.

The declaration of dividends is subject to the discretion of our Board of Directors and depends on various factors, including our net income, financial condition, cash requirements, future prospects, and other factors that our Board of Directors deems relevant to its analysis and decision making.

**Aggregate Contractual Obligations:**

There were no material changes to our aggregate contractual obligations from those disclosed in our Annual Report on Form 10-K for the year ended December 25, 2021.

**Supplemental Guarantor Information:**

The Kraft Heinz Company (as the “Parent Guarantor”) fully and unconditionally guarantees all the senior unsecured registered notes (collectively, the “KHFC Senior Notes”) issued by KHFC, our 100% owned operating subsidiary (the “Guarantee”). See Note 17, *Debt*, to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 25, 2021 for additional descriptions of these guarantees.

The payment of the principal, premium, and interest on the KHFC Senior Notes is fully and unconditionally guaranteed on a senior unsecured basis by the Parent Guarantor, pursuant to the terms and conditions of the applicable indenture. None of the Parent Guarantor’s subsidiaries guarantee the KHFC Senior Notes.

The Guarantee is the Parent Guarantor’s senior unsecured obligation and is: (i) *pari passu* in right of payment with all of the Parent Guarantor’s existing and future senior indebtedness; (ii) senior in right of payment to all of the Parent Guarantor’s future subordinated indebtedness; (iii) effectively subordinated to all of the Parent Guarantor’s existing and future secured indebtedness to the extent of the value of the assets secured by that indebtedness; and (iv) effectively subordinated to all existing and future indebtedness and other liabilities of the Parent Guarantor’s subsidiaries.

The KHFC Senior Notes are obligations exclusively of KHFC and the Parent Guarantor and not of any of the Parent Guarantor’s other subsidiaries. Substantially all of the Parent Guarantor’s operations are conducted through its subsidiaries. The Parent Guarantor’s other subsidiaries are separate legal entities that have no obligation to pay any amounts due under the KHFC Senior Notes or to make any funds available therefor, whether by dividends, loans, or other payments. Except to the extent the Parent Guarantor is a creditor with recognized claims against its subsidiaries, all claims of creditors (including trade creditors) and holders of preferred stock, if any, of its subsidiaries will have priority with respect to the assets of such subsidiaries over its claims (and therefore the claims of its creditors, including holders of the KHFC Senior Notes). Consequently, the KHFC Senior Notes are structurally subordinated to all liabilities of the Parent Guarantor’s subsidiaries and any subsidiaries that it may in the future acquire or establish. The obligations of the Parent Guarantor will terminate and be of no further force or effect in the following circumstances: (i) (a) KHFC’s exercise of its legal defeasance option or, except in the case of a guarantee of any direct or indirect parent of KHFC, covenant defeasance option in accordance with the applicable indenture, or KHFC’s obligations under the applicable indenture have been discharged in accordance with the terms of the applicable indenture or (b) as specified in a supplemental indenture to the applicable indenture; and (ii) the Parent Guarantor has delivered to the trustee an officer’s certificate and an opinion of counsel, each stating that all conditions precedent provided for in the applicable indenture have been complied with. The Guarantee is limited by its terms to an amount not to exceed the maximum amount that can be guaranteed by the Parent Guarantor without rendering the Guarantee voidable under applicable law relating to fraudulent conveyance or fraudulent transfer or similar laws affecting the rights of creditors generally.

The following tables present summarized financial information for the Parent Guarantor and KHFC (as subsidiary issuer of the KHFC Senior Notes) (together, the “Obligor Group”), on a combined basis after the elimination of all intercompany balances and transactions between the Parent Guarantor and subsidiary issuer and investments in any subsidiary that is a non-guarantor.

## Summarized Statement of Income

	For the Nine Months Ended
	September 24, 2022
Net sales	\$ 12,445
Gross profit <sup>(a)</sup>	4,074
Intercompany service fees and other recharges	2,415
Operating income/(loss)	1,035
Equity in earnings/(losses) of subsidiaries	972
Net income/(loss)	1,473
Net income/(loss) attributable to common shareholders	1,473

(a) For the nine months ended September 24, 2022, the Obligor Group recorded \$302 million of net sales to the non-guarantor subsidiaries and \$28 million of purchases from the non-guarantor subsidiaries.

## Summarized Balance Sheets

	September 24, 2022	December 25, 2021
<b>ASSETS</b>		
Current assets	\$ 5,608	\$ 6,484
Current assets due from affiliates <sup>(a)</sup>	1,806	2,890
Non-current assets	5,381	5,709
Goodwill	8,823	8,860
Intangible assets, net	2,133	2,222
Non-current assets due from affiliates <sup>(b)</sup>	207	207
<b>LIABILITIES</b>		
Current liabilities	\$ 5,140	\$ 5,091
Current liabilities due to affiliates <sup>(a)</sup>	1,954	5,922
Non-current liabilities	21,583	23,120
Non-current liabilities due to affiliates <sup>(b)</sup>	581	600

(a) Represents receivables and short-term lending due from and payables and short-term lending due to non-guarantor subsidiaries.

(b) Represents long-term lending due from and long-term borrowings due to non-guarantor subsidiaries.

## Commodity Trends

We purchase and use large quantities of commodities, including dairy products, meat products, soybean and vegetable oils, sugar and other sweeteners, tomatoes, coffee beans, potatoes, corn products, wheat products, nuts, and cocoa products, to manufacture our products. In addition, we purchase and use significant quantities of resins, fiberboard, metals, and cardboard to package our products, and we use electricity, diesel fuel, and natural gas in the manufacturing and distribution of our products. We continuously monitor worldwide supply and cost trends of these commodities.

During the nine months ended September 24, 2022, we experienced higher commodity costs primarily for dairy, packaging materials, soybean and vegetable oils, meat, and energy, including diesel fuel, electricity, and natural gas, as compared to the prior year period. These increases are primarily driven by overall market demand, inflationary pressures, and, in part, by the negative impact of the conflict between Russia and Ukraine on the global economy. We anticipate commodity costs to continue to remain elevated into 2023 due to inflationary pressures. We manage commodity cost volatility primarily through pricing and risk management strategies. As a result of these risk management strategies, our commodity costs may not immediately correlate with market price trends.

See our Annual Report on Form 10-K for the year ended December 25, 2021 for additional information on how we manage commodity costs.

## Critical Accounting Estimates

Our significant accounting policies are described in Note 2, *Significant Accounting Policies*, to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 25, 2021.

We prepare our condensed consolidated financial statements in conformity with U.S. GAAP. The preparation of these financial statements requires the use of estimates, judgments, and assumptions. Our critical accounting estimates and assumptions related to goodwill and intangible assets are described below. See Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, in our Annual Report on Form 10-K for the year ended December 25, 2021 for a discussion of our other critical accounting estimates and assumptions.

***Goodwill and Intangible Assets:***

As of September 24, 2022, we maintain 11 reporting units, seven of which comprise our goodwill balance. These seven reporting units had an aggregate goodwill carrying amount of \$30.6 billion at September 24, 2022. Our indefinite-lived intangible asset balance primarily consists of a number of individual brands, which had an aggregate carrying amount of \$38.2 billion as of September 24, 2022.

We test our reporting units and brands for impairment annually, or more frequently if events or circumstances indicate it is more likely than not that the fair value of a reporting unit or brand is less than its carrying amount. Such events and circumstances could include a sustained decrease in our market capitalization, increased competition or unexpected loss of market share, increased input costs beyond projections, disposals of significant brands or components of our business, unexpected business disruptions (for example due to a natural disaster, pandemic, or loss of a customer, supplier, or other significant business relationship), unexpected significant declines in operating results, significant adverse changes in the markets in which we operate, changes in income tax rates, changes in interest rates, or changes in management strategy. We test reporting units for impairment by comparing the estimated fair value of each reporting unit with its carrying amount. We test brands for impairment by comparing the estimated fair value of each brand with its carrying amount. If the carrying amount of a reporting unit or brand exceeds its estimated fair value, we record an impairment loss based on the difference between fair value and carrying amount, in the case of reporting units, not to exceed the associated carrying amount of goodwill. See Note 7, *Goodwill and Intangible Assets*, in Item 1, *Financial Statements*, for a discussion of the timing of the annual impairment test.

Fair value determinations require considerable judgment and are sensitive to changes in underlying assumptions, estimates, and market factors. Estimating the fair value of individual reporting units and brands requires us to make assumptions and estimates regarding our future plans, as well as industry, economic, and regulatory conditions. These assumptions and estimates include estimated future annual net cash flows, income tax considerations, discount rates, growth rates, royalty rates, contributory asset charges, and other market factors. Our current expectations also include certain assumptions that could be negatively impacted if we are unable to meet our pricing expectations in relation to inflation. If current expectations of future growth rates and margins are not met, if market factors outside of our control, such as discount rates, income tax rates, foreign currency exchange rates, or inflation, change, or if management's expectations or plans otherwise change, including updates to our long-term operating plans, then one or more of our reporting units or brands might become impaired in the future. Additionally, any decisions to divest certain non-strategic assets has led and could in the future lead to goodwill or intangible asset impairments.

As detailed in Note 7, *Goodwill and Intangible Assets*, in Item 1, *Financial Statements*, we recorded impairment losses related to goodwill and indefinite-lived intangible assets. Our brands that were impaired were written down to their respective fair values resulting in zero excess fair value over carrying amount as of the applicable impairment test dates. Our reporting units and brands that have 20% or less excess fair value over carrying amount as of the Q3 2022 Annual Impairment Test date have a heightened risk of future impairments if any assumptions, estimates, or market factors change in the future.

Reporting units with 20% or less fair value over carrying amount had an aggregate goodwill carrying amount of \$16.7 billion as of the Q3 2022 Annual Impairment Test and included Taste, Meals, and Away from Home (TMA), Canada and North America Coffee (CNAC), and Continental Europe. Reporting units with between 20-50% fair value over carrying amount had an aggregate goodwill carrying amount of \$14.5 billion as of the Q3 2022 Annual Impairment Test and included Fresh, Beverages, and Desserts (FBD), Northern Europe, Asia, and Latin America (LATAM). Our reporting units that have less than 1% excess fair value over carrying amount as of the Q3 2022 Annual Impairment Test are considered at a heightened risk of future impairments and include our CNAC and Continental Europe reporting units, which had an aggregate goodwill carrying amount of \$2.6 billion. Our four remaining reporting units had no goodwill carrying amount at the time of the Q3 2022 Annual Impairment Test. As discussed in Note 4, *Acquisitions and Divestitures*, and Note 7, *Goodwill and Intangible Assets*, in Item 1, *Financial Statements*, goodwill was subsequently added to our LATAM reporting unit as a result of the Hemmer Acquisition in the second quarter of 2022.

Brands with 20% or less fair value over carrying amount had an aggregate carrying amount after impairment of \$16.6 billion as of the Q3 2022 Annual Impairment Test and included *Kraft*, *Oscar Mayer*, *Miracle Whip*, *Ore-Ida*, *Maxwell House*, *Cool Whip*, *Jet Puffed*, and *Plasmon*. The aggregate carrying amount of brands with fair value over carrying amount between 20-50% was \$2.5 billion as of the Q3 2022 Annual Impairment Test. Although the remaining brands, with a carrying amount of \$19.4 billion, have more than 50% excess fair value over carrying amount as of the Q3 2022 Annual Impairment Test date, these amounts are also associated with the 2013 Heinz Acquisition and the 2015 Merger and are recorded on our condensed consolidated balance sheet at their estimated acquisition date fair values. Therefore, if any assumptions, estimates, or market factors change in the future, these amounts are also susceptible to impairments. Our brands that have less than 5% excess fair value over carrying amount as of the Q3 2022 Annual Impairment Test are considered at a heightened risk of future impairments and include our *Kraft*, *Ore-Ida*, *Jet Puffed*, and *Plasmon* brands, which had an aggregate carrying amount of \$11.3 billion.

We generally utilize the discounted cash flow method under the income approach to estimate the fair value of our reporting units. Some of the more significant assumptions inherent in estimating the fair values include the estimated future annual net cash flows for each reporting unit (including net sales, cost of products sold, SG&A, depreciation and amortization, working capital, and capital expenditures), income tax rates, long-term growth rates, and a discount rate that appropriately reflects the risks inherent in each future cash flow stream. We selected the assumptions used in the financial forecasts using historical data, supplemented by current and anticipated market conditions, estimated product category growth rates, management's plans, and guideline companies.

We utilize the excess earnings method under the income approach to estimate the fair value of certain of our largest brands. Some of the more significant assumptions inherent in estimating the fair values include the estimated future annual net cash flows for each brand (including net sales, cost of products sold, and SG&A), contributory asset charges, income tax considerations, long-term growth rates, a discount rate that reflects the level of risk associated with the future earnings attributable to the brand, and management's intent to invest in the brand indefinitely. We selected the assumptions used in the financial forecasts using historical data, supplemented by current and anticipated market conditions, estimated product category growth rates, management's plans, and guideline companies.

We utilize the relief from royalty method under the income approach to estimate the fair value of our remaining brands. Some of the more significant assumptions inherent in estimating the fair values include the estimated future annual net sales for each brand, royalty rates (as a percentage of net sales that would hypothetically be charged by a licensor of the brand to an unrelated licensee), income tax considerations, long-term growth rates, a discount rate that reflects the level of risk associated with the future cost savings attributable to the brand, and management's intent to invest in the brand indefinitely. We selected the assumptions used in the financial forecasts using historical data, supplemented by current and anticipated market conditions, estimated product category growth rates, management's plans, and guideline companies.

The discount rates, long-term growth rates, and royalty rates used to estimate the fair values of our reporting units and our brands with 20% or less excess fair value over carrying amount, as well as the goodwill or brand carrying amounts, as of the Q3 2022 Annual Impairment Test for each reporting unit or brand, were as follows:

	Goodwill or Brand Carrying Amount (in billions)	Discount Rate		Long-Term Growth Rate		Royalty Rate	
		Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
Reporting units	\$ 16.7	7.0 %	8.0 %	1.5 %	2.0 %		
Brands (excess earnings method)	14.9	7.7 %	7.8 %	1.0 %	1.5 %		
Brands (relief from royalty method)	1.7	7.5 %	8.5 %	0.5 %	2.0 %	4.0 %	20.0 %

Assumptions used in impairment testing are made at a point in time and require significant judgment; therefore, they are subject to change based on the facts and circumstances present at each annual and interim impairment test date. Additionally, these assumptions are generally interdependent and do not change in isolation. However, as it is reasonably possible that changes in assumptions could occur, as a sensitivity measure, we have presented the estimated effects of isolated changes in discount rates, long-term growth rates, and royalty rates on the fair values of our reporting units and brands with 20% or less excess fair value over carrying amount. These estimated changes in fair value are not necessarily representative of the actual impairment that would be recorded in the event of a fair value decline.

If we had changed the assumptions used to estimate the fair value of our reporting units and brands with 20% or less excess fair value over carrying amount, as of the Q3 2022 Annual Impairment Test for each of these reporting units and brands, these isolated changes, which are reasonably possible to occur, would have led to the following increase/(decrease) in the aggregate fair value of these reporting units and brands (in billions):

	Discount Rate		Long-Term Growth Rate				Royalty Rate	
	50-Basis-Point		25-Basis-Point				100-Basis-Point	
	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease
Reporting units	\$ (2.8)	\$ 3.4	\$ 1.4	\$ (1.3)				
Brands (excess earnings method)	(1.2)	1.4	0.5	(0.5)				
Brands (relief from royalty method)	(0.1)	0.2	0.1	(0.1)	\$ 0.2	\$ (0.2)		

Definite-lived intangible assets are amortized on a straight-line basis over the estimated periods benefited. We review definite-lived intangible assets for impairment when conditions exist that indicate the carrying amount of the assets may not be recoverable. Such conditions could include significant adverse changes in the business climate, current-period operating or cash flow losses, significant declines in forecasted operations, or a current expectation that an asset group will be disposed of before the end of its useful life. We perform undiscounted operating cash flow analyses to determine if an impairment exists. When testing for impairment of definite-lived intangible assets held for use, we group assets at the lowest level for which cash flows are separately identifiable. If an impairment is determined to exist, the loss is calculated based on estimated fair value. Impairment losses on definite-lived intangible assets to be disposed of, if any, are based on the estimated proceeds to be received, less costs of disposal.

See Note 7, *Goodwill and Intangible Assets*, in Item 1, *Financial Statements*, for our impairment testing results.

#### New Accounting Pronouncements

See Note 3, *New Accounting Standards*, in Item 1, *Financial Statements*, for a discussion of new accounting pronouncements.

#### Contingencies

See Note 14, *Commitments, Contingencies, and Debt*, in Item 1, *Financial Statements*, for a discussion of our contingencies.

#### Non-GAAP Financial Measures

The non-GAAP financial measures we provide in this report should be viewed in addition to, and not as an alternative for, results prepared in accordance with U.S. GAAP.

To supplement the condensed consolidated financial statements prepared in accordance with U.S. GAAP, we have presented Organic Net Sales, Adjusted EBITDA, and Adjusted EPS, which are considered non-GAAP financial measures. The non-GAAP financial measures presented may differ from similarly titled non-GAAP financial measures presented by other companies, and other companies may not define these non-GAAP financial measures in the same way. These measures are not substitutes for their comparable U.S. GAAP financial measures, such as net sales, net income/(loss), diluted EPS, or other measures prescribed by U.S. GAAP, and there are limitations to using non-GAAP financial measures.

Management uses these non-GAAP financial measures to assist in comparing our performance on a consistent basis for purposes of business decision making by removing the impact of certain items that management believes do not directly reflect our underlying operations. We believe that Organic Net Sales, Adjusted EBITDA, and Adjusted EPS provide important comparability of underlying operating results, allowing investors and management to assess the Company's operating performance on a consistent basis.

Management believes that presenting our non-GAAP financial measures is useful to investors because it (i) provides investors with meaningful supplemental information regarding financial performance by excluding certain items, (ii) permits investors to view performance using the same tools that management uses to budget, make operating and strategic decisions, and evaluate historical performance, and (iii) otherwise provides supplemental information that may be useful to investors in evaluating our results. We believe that the presentation of these non-GAAP financial measures, when considered together with the corresponding U.S. GAAP financial measures and the reconciliations to those measures, provides investors with additional understanding of the factors and trends affecting our business than could be obtained absent these disclosures.

Organic Net Sales is defined as net sales excluding, when they occur, the impact of currency, acquisitions and divestitures, and a 53rd week of shipments. We calculate the impact of currency on net sales by holding exchange rates constant at the previous year's exchange rate, with the exception of highly inflationary subsidiaries, for which we calculate the previous year's results using the current year's exchange rate.



Adjusted EBITDA is defined as net income/(loss) from continuing operations before interest expense, other expense/(income), provision for/(benefit from) income taxes, and depreciation and amortization (excluding restructuring activities); in addition to these adjustments, we exclude, when they occur, the impacts of divestiture-related license income (e.g., income related to the sale of licenses in connection with the Cheese Transaction), restructuring activities, deal costs, unrealized losses/(gains) on commodity hedges, impairment losses, certain non-ordinary course legal and regulatory matters, and equity award compensation expense (excluding restructuring activities).

Adjusted EPS is defined as diluted EPS excluding, when they occur, the impacts of restructuring activities, deal costs, unrealized losses/(gains) on commodity hedges, impairment losses, certain non-ordinary course legal and regulatory matters, losses/(gains) on the sale of a business, other losses/(gains) related to acquisitions and divestitures (e.g., tax and hedging impacts), nonmonetary currency devaluation (e.g., remeasurement gains and losses), debt prepayment and extinguishment costs, and certain significant discrete income tax items (e.g., U.S. and non-U.S. tax reform), and including, when they occur, adjustments to reflect preferred stock dividend payments on an accrual basis.

The Kraft Heinz Company  
Reconciliation of Net Sales to Organic Net Sales  
(dollars in millions)  
(Unaudited)

	Net Sales	Currency	Acquisitions and Divestitures	Organic Net Sales	Price	Volume/Mix
<b>Three Months Ended September 24, 2022</b>						
North America	\$ 5,016	\$ (14)	\$ —	\$ 5,030		
International	1,489	(131)	68	1,552		
Kraft Heinz	<u>\$ 6,505</u>	<u>\$ (145)</u>	<u>\$ 68</u>	<u>\$ 6,582</u>		
<b>Three Months Ended September 25, 2021</b>						
North America	\$ 4,941	\$ —	\$ 404	\$ 4,537		
International	1,383	6	16	1,361		
Kraft Heinz	<u>\$ 6,324</u>	<u>\$ 6</u>	<u>\$ 420</u>	<u>\$ 5,898</u>		
<b>Year-over-year growth rates</b>						
North America	1.5 %	(0.3) pp	(9.1) pp	10.9 %	15.3 pp	(4.4) pp
International	7.7 %	(9.8) pp	3.6 pp	13.9 %	15.7 pp	(1.8) pp
Kraft Heinz	2.9 %	(2.3) pp	(6.4) pp	11.6 %	15.4 pp	(3.8) pp

The Kraft Heinz Company  
Reconciliation of Net Sales to Organic Net Sales  
(dollars in millions)  
(Unaudited)

	Net Sales	Currency	Acquisitions and Divestitures	Organic Net Sales	Price	Volume/Mix
<b>Nine Months Ended September 24, 2022</b>						
North America	\$ 14,656	\$ (32)	\$ —	\$ 14,688		
International	4,448	(287)	179	4,556		
Kraft Heinz	<u>\$ 19,104</u>	<u>\$ (319)</u>	<u>\$ 179</u>	<u>\$ 19,244</u>		
<b>Nine Months Ended September 25, 2021</b>						
North America	\$ 15,143	\$ —	\$ 1,693	\$ 13,450		
International	4,190	14	54	4,122		
Kraft Heinz	<u>\$ 19,333</u>	<u>\$ 14</u>	<u>\$ 1,747</u>	<u>\$ 17,572</u>		
<b>Year-over-year growth rates</b>						
North America	(3.2)%	(0.2) pp	(12.2) pp	9.2 %	12.6 pp	(3.4) pp
International	6.2 %	(7.2) pp	2.9 pp	10.5 %	11.6 pp	(1.1) pp
Kraft Heinz	(1.2)%	(1.7) pp	(9.0) pp	9.5 %	12.3 pp	(2.8) pp

The Kraft Heinz Company  
Reconciliation of Net Income/(Loss) to Adjusted EBITDA  
(dollars in millions)  
(Unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	September 24, 2022	September 25, 2021	September 24, 2022	September 25, 2021
Net income/(loss)	\$ 435	\$ 736	\$ 1,481	\$ 1,279
Interest expense	228	415	704	1,443
Other expense/(income)	(22)	(138)	(211)	(191)
Provision for/(benefit from) income taxes	110	143	434	949
Operating income/(loss)	751	1,156	2,408	3,480
Depreciation and amortization (excluding restructuring activities)	227	228	676	677
Divestiture-related license income	(14)	—	(41)	—
Restructuring activities	8	15	38	52
Deal costs	—	2	8	8
Unrealized losses/(gains) on commodity hedges	84	27	65	(12)
Impairment losses	314	—	999	343
Certain non-ordinary course legal and regulatory matters	—	—	—	62
Equity award compensation expense (excluding restructuring activities)	28	51	107	155
Adjusted EBITDA	<u>\$ 1,398</u>	<u>\$ 1,479</u>	<u>\$ 4,260</u>	<u>\$ 4,765</u>

The Kraft Heinz Company  
Reconciliation of Diluted EPS to Adjusted EPS  
(Unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	September 24, 2022	September 25, 2021	September 24, 2022	September 25, 2021
Diluted EPS	\$ 0.35	\$ 0.59	\$ 1.19	\$ 1.03
Restructuring activities <sup>(a)</sup>	0.01	0.01	0.02	0.03
Deal costs <sup>(b)</sup>	—	—	0.01	—
Unrealized losses/(gains) on commodity hedges <sup>(c)</sup>	0.05	0.02	0.04	(0.01)
Impairment losses <sup>(d)</sup>	0.23	—	0.70	0.26
Certain non-ordinary course legal and regulatory matters <sup>(e)</sup>	—	—	—	0.05
Losses/(gains) on sale of business <sup>(f)</sup>	(0.01)	(0.06)	(0.01)	0.23
Other losses/(gains) related to acquisitions and divestitures <sup>(g)</sup>	—	—	(0.02)	—
Nonmonetary currency devaluation <sup>(h)</sup>	0.01	—	0.01	—
Debt prepayment and extinguishment costs <sup>(i)</sup>	(0.01)	0.09	(0.01)	0.37
Certain significant discrete income tax items <sup>(j)</sup>	—	—	—	0.19
Adjusted EPS	\$ 0.63	\$ 0.65	\$ 1.93	\$ 2.15

- (a) Gross expenses included in restructuring activities were \$7 million (\$6 million after-tax) for the three months and \$37 million (\$28 million after-tax) for the nine months ended September 24, 2022 and \$15 million (\$12 million after tax) for the three months and \$52 million (\$40 million after-tax) for the nine months ended September 25, 2021 and were recorded in the following income statement line items:
- Cost of products sold included expenses of \$5 million for the three months and \$15 million for the nine months ended September 24, 2022 and \$4 million for the nine months ended September 25, 2021; and
  - SG&A included expenses of \$3 million for the three months and \$23 million for the nine months ended September 24, 2022 and \$15 million for the three months and \$48 million for the nine months ended September 25, 2021.
  - Other expense/(income) included income of \$1 million for the three and nine months ended September 24, 2022.
- (b) Gross expenses included in deal costs were \$8 million (\$5 million after-tax) for the nine months ended September 24, 2022 and \$2 million (\$1 million after-tax) for the three months and \$8 million (\$2 million after-tax) for the nine months ended September 25, 2021.
- (c) Gross expenses/(income) included in unrealized losses/(gains) on commodity hedges were expenses of \$84 million (\$63 million after-tax) for the three months and \$65 million (\$49 million after-tax) for the nine months ended September 24, 2022 and expenses of \$27 million (\$20 million after-tax) for the three months and income of \$12 million (\$9 million after-tax) for the nine months ended September 25, 2021 and were recorded in cost of products sold.
- (d) Gross impairment losses included the following:
- Goodwill impairment losses of \$220 million (\$220 million after-tax) for the three months and \$444 million (\$444 million after-tax) for the nine months ended September 24, 2022 and \$265 million (\$265 million after-tax) for the nine months ended September 25, 2021, which were recorded in SG&A;
  - Intangible asset impairment losses of \$74 million (\$55 million after-tax) for the three months and \$469 million (\$358 million after-tax) for the nine months ended September 24, 2022 and \$78 million (\$59 million after-tax) for the nine months ended September 25, 2021, which were recorded in SG&A; and
  - Property, plant and equipment, net asset impairment losses of \$20 million (\$15 million after-tax) for the three months and \$86 million (\$65 million after-tax) for the nine months ended September 24, 2022, which were recorded in cost of products sold.
- (e) Gross expenses included in certain non-ordinary course legal and regulatory matters were \$62 million (\$62 million after-tax) for the nine months ended September 25, 2021 and were recorded in SG&A. These expenses related to an accrual in connection with the previously disclosed SEC investigation.
- (f) Gross expenses/(income) included in losses/(gains) on sale of business were a tax benefit of \$7 million for the three months and income of \$1 million (\$8 million after-tax) for the nine months ended September 24, 2022 and \$76 million (\$72 million after-tax) for the three months and \$11 million (expenses of \$280 million after-tax) for the nine months ended September 25, 2021 and were recorded in other expense/(income).
- (g) Gross expenses/(income) included in other losses/(gains) related to acquisitions and divestitures were income of \$38 million (\$29 million after-tax) for the nine months ended September 24, 2022 and were recorded in other expense/(income).
- (h) Gross expenses included in nonmonetary currency devaluation were \$6 million (\$6 million after-tax) for the three months and \$16 million (\$16 million after-tax) for the nine months ended September 24, 2022 and \$4 million (\$4 million after-tax) for the nine months ended September 25, 2021 and were recorded in other expense/(income).
- (i) Gross expenses/(income) included in debt prepayment and extinguishment costs were income of \$3 million (\$9 million after-tax) for the three months and \$12 million (\$16 million after-tax) for the nine months ended September 24, 2022 and expenses of \$147 million (\$115 million after-tax) for the three months and \$571 million (\$450 million after-tax) for the nine months ended September 25, 2021 and were recorded in interest expense.
- (j) Certain significant discrete income tax items were a benefit of \$1 million for the three months and an expense of \$235 million for the nine months ended September 25, 2021. This expense related to the revaluation of our deferred tax balances due to an increase in U.K. tax rates.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

There have been no material changes to our market risk during the nine months ended September 24, 2022. For additional information, refer to Item 7A, *Quantitative and Qualitative Disclosures about Market Risk*, in our Annual Report on Form 10-K for the year ended December 25, 2021.

**Item 4. Controls and Procedures.****Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of September 24, 2022. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures, as of September 24, 2022, were effective and provided reasonable assurance that the information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure.

**Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting during the three months ended September 24, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings.

See Note 14, *Commitments, Contingencies, and Debt*, in Item 1, *Financial Statements*.

### Item 1A. Risk Factors.

There have been no material changes to the risk factors disclosed in our Annual Report on Form 10-K for the year ended December 25, 2021.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Our share repurchase activity in the three months ended September 24, 2022 was:

	Total Number of Shares Purchased <sup>(a)</sup>	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(b)</sup>	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
6/26/2022 - 7/30/2022	29,593	\$ 36.60	—	\$ —
7/31/2022 - 8/27/2022	1,057,923	38.69	—	—
8/28/2022 - 9/24/2022	45,905	37.87	—	—
Total	1,133,421		—	

(a) Includes (1) shares repurchased to offset the dilutive effect of the exercise of stock options using option exercise proceeds and the vesting of RSUs and PSUs and (2) shares withheld for tax liabilities associated with the vesting of RSUs and PSUs.

(b) We do not have any publicly-announced share repurchase plans or programs.

**Item 6. Exhibits.**

<b>Exhibit No.</b>	<b>Descriptions</b>
22.1	<a href="#"><u>List of Guarantor Subsidiaries.*</u></a>
31.1	<a href="#"><u>Certification of Chief Executive Officer pursuant to Rule 13a 14(a)/15d 14(a) of the Securities Exchange Act of 1934.*</u></a>
31.2	<a href="#"><u>Certification of Chief Financial Officer pursuant to Rule 13a 14(a)/15d 14(a) of the Securities Exchange Act of 1934.*</u></a>
32.1	<a href="#"><u>Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**</u></a>
32.2	<a href="#"><u>Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**</u></a>
101.1	The following materials from The Kraft Heinz Company's Quarterly Report on Form 10-Q for the period ended September 24, 2022 formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) the Condensed Consolidated Statements of Income, (ii) the Condensed Consolidated Statements of Comprehensive Income, (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements of Equity, (v) the Condensed Consolidated Statements of Cash Flows, (vi) Notes to Condensed Consolidated Financial Statements, and (vii) document and entity information.*
104.1	The cover page from The Kraft Heinz Company's Quarterly Report on Form 10-Q for the quarter ended September 24, 2022, formatted in inline XBRL.*
*	Filed herewith.
**	Furnished herewith.



## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

The Kraft Heinz Company

Date: October 27, 2022

By: /s/ Andre Maciel

Andre Maciel

Executive Vice President and Global Chief Financial Officer

(Duly Authorized Officer and Principal Financial Officer)

The Kraft Heinz Company

Date: October 27, 2022

By: /s/ Vince Garlati

Vince Garlati

Vice President, Global Controller

(Principal Accounting Officer)