02-Jun-2025

The Campbell's Co. (CPB)

Q3 2025 Earnings Call

CORPORATE PARTICIPANTS

Rebecca Gardy
Senior Vice President & Chief Investor Relations Officer, The Campbell's Co.

Mick J. Beekhuizen
President, Chief Executive Officer & Director, The Campbell's Co.

Carrie L. Anderson
Executive Vice President & Chief Financial Officer, The Campbell's Co.

OTHER PARTICIPANTS

Andrew Lazar
Analyst, Barclays Capital, Inc.

Kenneth Goldman
Analyst, JPMorgan Securities LLC

Peter T. Galbo
Analyst, BofA Securities, Inc.

Megan Alexander Clapp
Analyst, Morgan Stanley & Co. LLC

Jim Salera
Analyst, Stephens, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to The Campbell's Company Third Quarter Fiscal 2025 Earnings Conference Call. Today's conference is being recorded. All lines will be muted during the presentation portion of the call, with an opportunity for questions and answers at the end. [Operator Instructions]

I would now like to turn the call over to Rebecca Gardy, Chief Investor Relations Officer at Campbell's. Please go ahead.

Rebecca Gardy

Senior Vice President & Chief Investor Relations Officer, The Campbell's Co.

Good morning, and welcome to Campbell's third quarter fiscal 2025 earnings conference call. I'm Rebecca Gardy, Campbell's Chief Investor Relations Officer. Joining me today are Mick Beekhuizen, Chief Executive Officer; and Carrie Anderson, Chief Financial Officer.

Today's remarks have been prerecorded. Once we conclude the prepared remarks, we will transition to a live webcast Q&A session. The presentation and transcript of managements prepared remarks and today's earnings press release have been posted to the Investor Relations section on our website, thecampbellscompany.com. Following the conclusion of the Q&A session, a replay of the webcast will be available at the same location, followed by a transcript of the call within 24 hours.

Slide 2 outlines today's agenda. Mick will provide insights into our third quarter performance, as well as our in-market performance by division. Please recall that effective first quarter fiscal 2025, we are using Circana MULO+

for in-market data. Carrie will then discuss the financial results of the quarter in more detail and review our guidance for the full fiscal year 2025.

On our call today, we will make forward-looking statements which reflect our current expectations. These statements rely on assumptions and estimates which could be inaccurate and are subject to risk. Please refer to slide 3 of our presentation or our SEC filings for a list of factors that could cause our actual results to vary materially from those anticipated in the forward-looking statements. Because we use non-GAAP measures, we have provided a reconciliation of each of these measures to the most directly comparable GAAP measure in the appendix of our presentation.

And now, it's my pleasure to turn it over to Chief Executive Officer, Mick Beekhuizen. Mick?

Mick J. Beekhuizen

President, Chief Executive Officer & Director, The Campbell's Co.

Thanks, Rebecca, and good morning, everyone. Our third quarter earnings performance exceeded expectations, driven by solid contributions from our Meals & Beverages business due to strong in-market performance and a benefit from favorable shipment timing, which we expect to normalize in the fourth quarter. The performance of our Snacks business was mixed this quarter, reflecting continued category softness and an increasingly competitive environment. That said, we have an attractive Snacking portfolio with a clear right to win, and we have been refining our plans to improve our in-market performance.

In the current dynamic macro environment, consumers are making thoughtful spending decisions, which is materializing in our categories. Consumers continue to cook at home and focus their spending on products that help them stretch their food budgets, and they're increasingly intentional about their discretionary snack purchases. These behaviors supported growth in our Meals & Beverages categories and increased headwinds in our Snacking categories. Collectively, our 16 leadership brands' in-market performance was in line with overall category consumption, with Meals & Beverages consumption ahead of categories, and Snacks behind driven by heightened competitive pressures.

Given our performance year-to-date, we are reaffirming our full year fiscal 2025 guidance ranges. That said, we now expect adjusted earnings to be at the low end of the guidance range due to the slower-than-anticipated recovery in the Snacks business, consistent with what we said during our last earnings call and given the fluid operating environment, this guidance excludes any impact from the imposition of import tariffs [ph] by the US (00:03:58) government and potential retaliatory actions taken by other countries as the trade environment remains uncertain.

We have separately estimated the fiscal 2025 tariff impact, which Carrie will talk through in a few moments. We remain focused on near-term in-market execution and mitigating tariff impact, while investing in our brands, leveraging our scale for growth, elevating senior leaders to key roles, and advancing critical capabilities for long-term value creation.

Now, let's turn to key highlights from our third quarter results on slide 6.

Organic net sales growth of 1% was driven by volume growth, marking five consecutive quarters of flat or positive volume across the enterprise. Organic net sales growth was ahead of in-market consumption driven by timing of shipments, which we expect to normalize in Q4. The organic net sales growth was led by our Meals & Beverages division, which more than outweighed the ongoing pressure in our Snacks business.

It's important to note that the Sovos acquisition moved into organic net sales in the middle of the third quarter. We delivered 4% net sales growth, reflecting the before-mentioned organic net sales growth and contribution from Rao's during the first half of the third quarter. Adjusted EBIT increased 2% versus prior year, which resulted in a slight margin decrease as lower net pricing realization was only partially offset by spending reductions. Adjusted EPS was down 3% with a net positive EPS contribution from the Sovos acquisition in the quarter.

Turning to slide 7, the in-market contribution of our 16 leadership brands, representing approximately 90% of total net sales, remained stable in the third quarter, with more than half holding or gaining share. As we mentioned last quarter, we started to see consumer sentiment softening in January. This continued throughout Q3, with consumers making more deliberate choices with their spending on food. The key outcome is a growing preference for home-cooked meals, leading to the highest levels of meals prepared at home since early 2020. Additionally, consumers are favoring ingredients that help stretch tighter food budgets.

Both provided a tailwind for our Meals & Beverages business, especially for our condensed cooking soups, broth and Italian sauces. As a result, our Meals & Beverages leadership brands continued to outpace category consumption and grew dollar share by 0.4 points. Six of our eight Meals & Beverages leadership brands grew or held share in the third quarter. In total, Meals & Beverages leadership brand consumption increased by 2% in the quarter. Conversely, the consumer environment was a continued headwind in the quarter for some of our more discretionary categories in Snacks, such as crackers and chips. However, while value is important, consumers favor better-for-you segments and are willing to selectively splurge when the benefits are clearly worth it, as evidenced by the momentum of some of our recent innovation launches.

In Snacks, three of our eight leadership brands grew or held share. Pepperidge Farm Bakery and Cookies brands held share, partially driven by our successful innovation. Snack Factory, with a presence in both the deli and snack aisles now, grew share by almost 0.5 point, and our Lance sandwich crackers maintained momentum with a second consecutive quarter of share growth. Given the category trends and aggregate share headwinds, our overall Snacks leadership brand consumption declined by 3% in the quarter. We remain confident in the strength and long-term growth potential of our Snacks brands and the plans we have to stabilize share, while navigating the dynamic operating environment.

Let's take a closer look at each division, beginning with Meals & Beverages on slide 8. Organic net sales increased 6% for the quarter, led by volume and mix growth of 7%. Specifically, organic net sales increased year-over-year due to consumption growth of 2% and timing of customer shipments in our base business at the end of the quarter, as well as Rao's, in connection with the implementation of our existing SAP enterprise resource planning system for Sovos Brands.

Turning to slide 9, our soup portfolio continued its strong performance in Q3, benefiting from the increased at-home cooking trends I mentioned earlier. Campbell's total wet soup grew dollar share by 0.4 points and saw the sixth consecutive quarter of volume share growth driven by household gains, particularly among younger cohorts as they increasingly cook at home.

The broth category has grown since 2020 and more recently further accelerated, fueled by the uptick in cooking behavior, making our broth business a continued bright spot within the portfolio. In Q3, we significantly outpaced category consumption and grew dollar share by nearly 3 points in the quarter. Swanson saw strong consumption and volume growth and has now gained or held millennial households for seven consecutive quarters.

Our strong performance in the broth category is further emphasized by Pacific's continued double-digit consumption growth. The pace of the private label recovery has been slower than we originally anticipated, though we expect it to continue to recover. Our supply chain team has done an outstanding job of meeting customer demand in the face of private label supply constraints, and we are confident in our ability to continue to do so.

Our ready-to-serve in-market consumption declines were driven by increased competitive promotional intensity and our discontinuation of our Well Yes! brand. Our Chunky, Pacific, Rao's, and Homestyle brands all gained share in the quarter.

Finally, our condensed portfolio continued its strong performance during the quarter with a sixth consecutive quarter of dollar share growth, and increases in both dollar and volume consumption. Our brands outperformed the segment and grew share, partially driven by the successful mac and cheese activation.

In the current economic environment, we are constantly looking to provide consumers with exciting new options that let them use our products in more versatile ways to cook meals at home. A great example of that is our mac and cheese marketing activation. In the third quarter, we introduced a new easy and delicious way to make this household classic. This activation helped drive the 11th consecutive quarter of condensed cooking soup share growth, and added approximately 1 million households to Campbell's condensed cooking portfolio, the highest household penetration gains for condensed in any quarter over the past four years.

More than half of these new buyers were millennials, displaying the brand's growing popularity with this generation. This is a great example of our purpose at work, connecting people through food they love, and demonstrates the growth we can unlock by continuing to highlight the versatility of our condensed soups in making delicious, affordable, and stretchable meals.

Year-over-year, the Italian sauce category grew roughly 2 points in Q3 and was relatively stable to Q2. Prego trailed dollar consumption for Q3, largely due to a shift in the timing of promotional activity. However, on a Q3 year-to-date basis, Prego consumption was more in line with the Italian sauce category and well ahead on share when excluding the ultra-distinctive segment.

Rao's dollar consumption growth in Q3 was in line with the overall category, but underperformed our initial expectations. The main drivers of the lower-than-expected Rao's sauce growth in Q3 can be attributed to a couple of points of headwind from certain prior year promotional events we decided not to repeat this quarter because they were below our premium price guardrails, combined with slightly increased consumer spending sensitivity and increased competitive promotional activity.

That said, the Rao's brand remains strong, and we still have significant opportunities to increase distribution, household penetration, and awareness of Rao's when comparing it to Prego. While we have made considerable progress growing the brand since acquiring it last year, there is still a significant opportunity ahead. We have a history of category growth and leadership and believe that the distinctive premium nature of Rao's sauces will allow us to continue that success. Rao's sauce is reaching a point of maturity on core distribution, so we're investing in other levers to sustain growth, including marketing focused on highlighting the Italian origin of Rao's ingredients, continued innovation, and sharpened sales execution.

Now, let's turn to our Snacks business on slide 13. In the third quarter, the pressure on Snacking categories increased sequentially, which, combined with heightened competitive activity, resulted in year-over-year 3% lower in-market consumption. Organic net sales declined by 5%, driven by lower volume and mix. The bulk of the 2 point variance to consumption was driven by partner/contract brands as we continue to reshape our portfolio to focus more on our differentiated leadership brands.

Turning to slide 14, you can see how our Snacks portfolio performed relative to each respective Snacking category, and key brand specific action plans to navigate the current landscape. In bakery and cookies, we outperformed category consumption through sustained momentum in Pepperidge Farm fresh bakery and cookies, resulting in stable in-market consumption. Coming off a successful winter holiday, we elevated innovation and unlocked growth by giving consumers the indulgences they are looking for.

In pretzels, consumption grew in the quarter in the salty aisle, although at lower levels than the broader category. We are meeting consumer needs through two distinct brands: Snyder's of Hanover for pretzel traditionalists; and Snack Factory which reimagines pretzels. On Snyder's of Hanover, we continue to proactively manage our assortment to higher-performing items and invest in expanding convenient portion-controlled packs, but this was not enough to offset the category competitive pressures. With Snack Factory, we are pleased with the results of its expansion into the salty snack aisle, including the successful launch of Pop'ums and Bites, which have garnered strong repeat purchases. We expect this momentum to fuel consumption for our pretzels portfolio.

In crackers, reduced overall consumer sentiment has put pressure on the category. The outsized consumption decline for our business was partially driven by lapping the significantly supported Goldfish Crisps launch in the prior year, which peaked in Q3. While there were bright spots within Goldfish, especially related to the Harry Potter Butterbeer limited time offering, we have more work to do to reinvigorate this brand and get it back on its historical growth trajectory. We plan to focus on core relevancy through marketing support, strategic promotional activity, and the critical back-to-school season.

Finally, our chips portfolio is well-positioned, but continues to face strong competitive pressures. We have seen positive consumer and customer response to our product innovation and have increased household penetration through some of our better-for-you offerings such as Kettle Brand Avocado Oil and Air Fried options. And while in-market consumption fell short of our expectations compared to the narrower kettle cooked chips segment, it was in line with the broader chip category. We have specific plans to drive incremental volume growth through optimized distribution, promotion, and continued limited edition innovation ahead of the all-important summer chip season.

Moving to slide 15, we are pleased to share the latest results in our efforts to reignite Pepperidge Farm, one of our billion-dollar brands. In Q3, our Pepperidge Farm Bakery business delivered the highest volume and dollar share growth in nine quarters, driven by the Farmhouse Brioche platform. This platform now includes delicious items in sandwich bread, buns and rolls, and swirl breakfast bread.

Growth in our Pepperidge Farm Cookies business is coming from Milano cookies, which had the strongest household penetration gains in nine quarters in Q3, driven by the Milano white chocolate platform launch. This has helped fuel the core Milano brand, attract a younger demographic, maintain its trajectory coming out of the winter holiday, and resulted in strong dollar and volume growth. Other Milano innovation included the on-trend limited edition Caramel Café Au Lait and the return of the popular London Fog variety. We are excited about the recent results and additional upcoming opportunities to innovate and provide consumers with the touch of premium indulgence that they seek from our bakery and cookies portfolio.

Before I turn it over to Carrie, I wanted to thank the entire Campbell's team for their focus on delivering solid Q3 results in such a dynamic operating environment. Our Meals & Beverages division had strong in-market performance, fueled by growing consumer demand for home cooking. Our Snacks results were mixed as consumers are being more intentional with discretionary dollars and the categories are increasingly competitive.

We recognize that we need to continue to sharpen our execution to win in the marketplace and drive future growth.

As we look to the fourth quarter, we will continue to navigate the current environment and stay focused on near-term in-market execution while we actively work to mitigate as much of the potential direct impact of tariffs as possible. These dynamics are also pushing us to focus on what matters most to our customers and consumers and invest in the capabilities that will position us for long-term growth. We're building a stronger foundation for the future by improving our efficiency and effectiveness across the organization to facilitate growth.

With the creation of the growth office, supporting both divisions, we are taking advantage of our scale while we elevate the focus on growth across the organization. The growth office will elevate capabilities within consumer insights, brand activation, innovation and revenue growth management. Additionally, we have hired a Chief Digital and Technology Officer to accelerate digital tools and capabilities to improve our efficiency and effectiveness.

Finally, we remain focused on identifying incremental productivity and cost savings opportunities to create more fuel to invest in our brands. All told, our focus remains firmly on disciplined short-term execution as we lay the groundwork for consistent, sustainable growth.

Let me turn it over to Carrie to go over the Q3 results in more detail.

Carrie L. Anderson

Executive Vice President & Chief Financial Officer, The Campbell's Co.

Thanks, Mick, and good morning, everyone. As Mick said earlier, our third quarter performance exceeded our expectations. The over-performance in the quarter was primarily attributable to our Meals & Beverages division, which benefited from timing of customer inventory orders.

Reported net sales increased 4%, driven by the sales contribution from Sovos Brands. Organic net sales, excluding the impact of currency, the Pop Secret and noosa divestitures, and approximately half a quarter of Sovos, increased 1% as over-delivery in Meals & Beverages more than offset continued pressures in our Snacks business. As a reminder, Sovos moved into organic growth mid-quarter as we lapped the anniversary date of the acquisition on March 12, 2024.

Adjusted EBIT increased 2%, primarily due to the contribution from the acquisition, offsetting lower base business performance. Adjusted EBIT margin was down 30 basis points, with limited impact from tariffs. Adjusted EPS exceeded our expectations at $0.73, down 3% from the prior year. The impact of the acquisition was accretive to adjusted EPS in the quarter.

Turning to slide 19. As mentioned earlier, organic net sales for the third quarter were up 1% due to favorable volume and mix, partially offset by planned lower net price realization. The favorable volume and mix component was attributable to both Sovos, as well as over-delivery within our base Meals & Beverages business, which I'll discuss more in a moment.

Reported net sales in the quarter of 4% reflected a 4-point net contribution from acquisitions and divestitures, which included 6 points from the Sovos acquisition and negative 2 points from the Pop Secret and noosa divestitures.

On slide 20, third quarter adjusted gross profit margin declined 110 basis points, with margin in the base business down 100 basis points and a negative 10-basis-point impact related to the acquisition. Base business margins were impacted by approximately 80 basis points of net price investment and 20 basis points of other cost headwinds as inflation and other supply chain costs were largely mitigated by productivity improvements, cost savings, and favorable volume and mix.

As mentioned earlier, the direct tariff impact to the business was not material in the quarter. As of the end of the third quarter, we delivered approximately $110 million of total savings under the $250 million cost savings program announced at our Investor Day in September 2024, of which approximately 30% were realized in costs of products sold.

Turning to slide 21, the total combined dollar spend on adjusted marketing and selling expenses and admin expenses increased slightly compared to the prior year, primarily reflecting the integration of Sovos. However, these combined expenses improved as a percentage of net sales compared to the prior year.

Within adjusted marketing and selling expenses, advertising and consumer promotion expense increased 3%, primarily reflecting the acquisition of Sovos. Adjusted administrative expenses decreased 4%, mainly driven by the benefits from cost savings initiatives. These savings include the benefits of the integration of Sovos, which continues to exceed expectations. As of the beginning of the fourth quarter, we have now transitioned the Sovos business into our Campbell's ERP system, which will unlock additional back-office savings in IT, finance, and order management into fiscal 2026.

As shown on slide 22, third quarter adjusted EBIT increased 2%, primarily due to lower adjusted administrative, R&D, and other expenses, along with higher adjusted gross profit, which were partially offset by an increase in adjusted marketing and selling expenses.

On slide 23, adjusted EPS decreased 3% to $0.73, as adjusted EBIT growth was more than offset by higher adjusted interest expense, primarily due to higher levels of debt and higher average interest rates on the overall debt portfolio. As I mentioned earlier, the Sovos acquisition was accretive to adjusted earnings per share in the quarter.

Turning to slide 24, Meals & Beverages reported a 15% increase in net sales growth, including the contribution of the acquisition and net of the divestiture impact of noosa that was completed earlier this calendar year on February 24.

Organic net sales increased 6% compared to the prior year, driven by favorable volume and mix of 7% in US soup, Rao's, and Canada, partially offset by a 1-point lower net price realization. Approximately one-third of the organic growth was attributable to growth in condensed, broth, and ready-to-serve soups and Rao's sauces, which benefited from the continued shift to at-home meals that Mick mentioned earlier. The remaining growth was related to the timing of customer shipments at the end of the quarter in our base business, as well as in Rao's, in connection with the integration of Sovos into Campbell's ERP system. We expect inventory orders to normalize in the fourth quarter.

Third quarter operating earnings in the division increased 8%, primarily due to the benefits of the acquisition, partially offset by a decline in the base business. Meals & Beverages operating margin was lower by 100 basis points, which was primarily driven by lower realized net price and, in part, due to the mix impact of the Sovos acquisition not being included in our base for half the quarter. The remaining cost headwinds, including higher cost inflation and other supply chain costs were offset by favorable volume and mix, productivity and cost savings, as well as reduced marketing, selling, and administrative expenses as a percent of net sales.

Turning to slide 25, Snacks reported an 8% decrease in net sales. Excluding the impact of the Pop Secret divestiture, organic net sales decreased 5%, driven primarily by lower net sales in Goldfish crackers, third-party partner and contract brands, and Snyder's of Hanover pretzels. As a reminder, we lapped the launch of Goldfish Crisps in the prior year.

In addition, net sales were also lower in Late July snacks due to a promotional shift versus prior year, and Lance sandwich crackers as we lapped a pipeline fill in the prior year due to a change in pack sizes. Snacks organic net sales were impacted by unfavorable volume and mix of 5% and neutral net price realization.

Snacks operating earnings in the quarter declined 13% due to lower gross profit as the impact of lower volume and mix, inflation, and other supply chain costs were only partially offset by supply chain productivity, benefits from cost savings initiatives, and lower administrative expenses. Q3 operating margin for Snacks decreased 90 basis points to 14.3%, mainly driven by higher selling expenses as a percent of net sales and lower gross profit. Notably, Snacks operating margin sequentially improved 300 basis points compared to Q2, driven by an improvement in supply chain costs, as expected.

Turning to slide 26. We generated $872 million in operating cash flow year-to-date, slightly lower than the prior year period driven by changes in working capital. Capital expenditures were $296 million year-to-date and reflect investments in chip and cracker capacity expansion for our Snacks business, network optimization for our Meals & Beverages business, and enhancements to business capabilities. We remain committed to returning cash to our shareholders with $343 million of dividends paid, reflecting a 5% increase in the third quarter, and $60 million in anti-dilutive share repurchases year-to-date.

Our net debt to adjusted EBITDA leverage ratio at the end of the third quarter was 3.6 times, a slight improvement from our ratio at the end of the second quarter, as we continue to focus on deleveraging the balance sheet towards our goal of three times net leverage. At the end of the third quarter, the company had approximately $143 million in cash and cash equivalents and approximately $1.5 billion available under our undrawn revolving credit facility.

Our full year fiscal 2025 guidance provided on March 5, 2025 remains unchanged, excluding the impact of tariffs. Adjusted earnings are expected at the low end of the guidance range due to the slower than anticipated recovery in the Snacks business. We have estimated the net incremental headwind of tariff-related costs to be up to $0.03 to $0.05 per share to fiscal 2025 adjusted EPS. This is not factored into our fiscal 2025 guidance as the trade environment remains uncertain.

This estimate reflects our assumption that the current tariff actions stay in place and incorporates the proactive steps we're taking to minimize overall impact, including strategic inventory management, working in close partnership with our suppliers, pursuing alternative sourcing and product cost optimization, and where absolutely necessary, consideration of surgical pricing actions.

To finish out the discussion of fiscal 2025 guidance, as a reminder, fiscal 2025 comprises 53 weeks, 1 additional week compared to fiscal 2024. The benefit of the 53rd week is included in our fiscal 2025 guidance and is estimated to be worth approximately 2 points of growth to reported net sales and adjusted EBIT, along with approximately $0.05 of adjusted EPS.

Although, we expect an increase in core inflation in the second half as compared to the prior year and a sequential increase from the first half, we expect core inflation for the full fiscal year to remain in the low single-digit range and to be mitigated by productivity improvements and higher expected cost savings.

We are increasing our cost savings expectation for the full year from $120 million to $130 million as a result of our continued strong year-to-date performance. This includes savings from the integration of Sovos and several previously discussed network optimization projects across both divisions. Capital expenditures for fiscal 2025 are expected to be approximately 4.5% of net sales, compared to our prior guidance of 4.7% due to timing of expenditures.

To wrap-up, our Q3 performance exceeded our expectations, driven by over-delivery by the Meals & Beverages division. And while we are not satisfied with the results of our Snacks division, we remain confident in the strength of our Snacks portfolio and continue to take steps to regain our momentum.

We remain focused on delivering high-quality, high-value food that consumer's trust, while advancing our productivity and cost savings initiatives. Our long-standing supply chain excellence and scale position us to effectively navigate a dynamic operating environment. We're committed to driving long-term growth and maintaining capital discipline to deliver value to our shareholders.

This concludes our prepared remarks. Operator, let's begin the Q&A.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from Andrew Lazar from Barclays. Please go ahead. Your line is open.

Andrew Lazar
Analyst, Barclays Capital, Inc.

Q

Great. Thanks so much. Mick, I wanted to dig in, obviously, on Snacks some more. That's the area where the company is seeing sort of the most pressure. How much of the pressure is overall category versus Campbell's in-market execution? And I guess, what's the company specifically doing, I guess, to control what it can, while also not contributing to any sort of race to the bottom, so to speak, from a category pricing and competitiveness standpoint? I guess I'm trying to get a sense of how we think about the next few quarters in this segment in terms of sort of volume and price.

Mick J. Beekhuizen
President, Chief Executive Officer & Director, The Campbell's Co.

A

Yeah, yeah. Okay. Great. Morning, Andrew. Appreciate the question and, obviously, a core focus of us. If you look at the quarter, Q3, and you put it in perspective versus Q2, you see that actually, sequentially, the aggregate categories deteriorated, which is, one, driven by the deteriorating consumer confidence that we've obviously all seen, and then on top of it, that the consumer continues to become increasingly intentional, and that is really that focus on value, better-for-you, and indulgence.

If you look at our in-market consumption, you saw that in Q2, we were down minus 1%. In Q3, we're down minus 3%. About two-thirds of that is driven by the worsening of the aggregate categories and about one-third of that is driven by our in-market performance. If you look at the in-market performance during the quarter, there are a couple of areas that actually worked well, and I talked about it in my prepared remarks, which comes back to Pepperidge Farm Bakery and Cookies, as well as Pretzels, where you saw some innovation really driving our brands and supporting overall consumption. I expect us to continue to focus on innovation, which is important as the consumer, as I described earlier, is really intentional about the dollars that they're spending. And we are really focused with our innovation on meeting those consumer needs.

Then, on the flip side, if you look at Q3, on the first – on the one hand, we got the chips categories. And within chips, we are actually – our brands are within the right subsegments of the broader chips category. So, I feel good from that perspective. That being said, there's some increased competition and the team is working through making sure that we're successful in this environment with, on the one hand, focus on in-market execution with distribution expansion where possible, but also back to some of the innovation and also bringing the excitement to the category with some LTOs. And then finally, I'd call out, instead of focus just purely on promotional activity, really bringing it much more back to price pack architecture and making sure that we have the right price points in the marketplace. And if anything, actually, one of the things that we've seen multipacks within chips has worked well.

Now, then finally, crackers, and specifically Goldfish, we got some work to do on Goldfish, and I talked a little bit about that in my prepared remarks. But if you look at the headwind that we had on Goldfish, about half of it is driven by the category and the Goldfish Crisps launch from last year, and then the other half is really back to core declines. So, when you think about our focus areas, we're focused on reigniting that core with advertising, activations, LTOs. But on top of it, back to my earlier comment around the focus of the consumer on value, we need to make sure that we provide value in the marketplace. And that is not so much coming back to incremental promotions, but it's much more coming back to, on the one hand, making sure that we allocate the promotional activity to where we're actually getting the best ROI; and then, on the top of it, also making sure that we have that right price point in the marketplace.

And you might recall, we talked before about that 2.5 ounce grab bag for Goldfish, and I expect that that's a good entry price point, and I expect us to continue to expand distribution and also displace within that, and then there might be an opportunity to multipack as well. So, hopefully, Andrew, that gives you a little bit of a sense of kind of the dynamics more broadly within our portfolio and what we're planning on doing about it.

Andrew Lazar
Analyst, Barclays Capital, Inc.

Q

Thanks for that. A very quick follow-up. Just I know it's too early to guide for fiscal 2026 and it's still an incredibly dynamic environment, but what are the key puts and takes for us to consider just as we think to next year? Particularly, as it seems there's a need for some continued reinvestment in the Snacks space, some of the food companies have been increasingly transparent about the need for greater in-market pressure to sort of nudge the consumer a bit. Thanks so much.

Mick J. Beekhuizen
President, Chief Executive Officer & Director, The Campbell's Co.

A

Yeah, yeah. Okay. Obviously, I mean, we're not yet ready to give fiscal 2026 guidance. But when I look at where we're at with regard to the Snacks business, as you might recall from last time around, we actually expected a recovery of the Snacking business throughout this year and actually ending the year relatively flat. And then, going with that into fiscal 2026, obviously, where the current trend is, and looking at into Q4, we still have ways to go on that. And as a result, I expect that recovery to take place now in fiscal 2026.

I do think that's coming back to the different tactics that I previously described, probably combined with making sure that we continue to invest in our brands. And one of the things that you see right now is that we are spending, from a marketing selling perspective, at the lower end of our 9% to 10% range. I do expect that going into next year, we might need to lean into that a little bit more as we need to make sure that we support our brands in the marketplace.

The other thing is, Andrew, maybe kind of from a, call it, broader incentive comp perspective, our incentive comp is not surprising in light of kind of overall results that you're seeing and I expect that that will be a little bit of a headwind going into next year.

Andrew Lazar
Analyst, Barclays Capital, Inc.

Q

Got it. Thanks very much.

Mick J. Beekhuizen
President, Chief Executive Officer & Director, The Campbell's Co.

A

Okay.

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

Kenneth Goldman
Analyst, JPMorgan Securities LLC

Q

Hi. Thanks. Good morning. In Meals & Beverages, you did highlight a few times the uptick in at-home cooking and eating trends, which, of course, is great to see. I'm just curious, I guess, to what extent you have optimism in this positive trend to continue, how much of it do you think is driven by sort of just lower consumer confidence? Or are there other factors you'd highlight? I'm really just trying to get a sense of the sustainability of that tailwind as you see it.

Mick J. Beekhuizen
President, Chief Executive Officer & Director, The Campbell's Co.

A

Yes, yes. Okay. Yeah, thanks, Ken. If I look at the Meals & Beverages business, Meals & Beverages, obviously a bright spot within our portfolio, and you see that in the results. We now have six quarters of positive in-market consumption growth within Meals & Beverages. And if you look at the results this time around, they were exacerbated a little bit by the timing of shipments, and we do expect those to reverse in Q4 and will likely be an about 3 points headwind in M&B for the fourth quarter.

Now, that being said, from an in-market consumption perspective, we feel pretty good about where we're at, and particularly if you look at what the team's been able to do over the past, call it, six quarters. And when you start looking at the overall portfolio, the portfolio is well-positioned with providing that value, quality, and convenience in an environment where the consumers continue to look more at cooking at home. And you also see the power of our portfolio at work, with us being, for instance, both having mainstream as well as premium offerings.

And a good example, obviously, we often talk about Prego and Rao's. But if you look at, for instance, in broth, we also have Swanson and Pacific. And particularly, during a time where there's disproportionate demand for broth and a little bit of supply pressure, you see actually both brands doing really well in this marketplace.

Now, it isn't only coming back to those. You also saw some of the condensed activation that we had in the marketplace this time around with mac and cheese, which is really driving to cooking with condensed as an everyday behavior, versus just during the holidays. And I think the activation this past quarter was a great proof point of that.

I'm obviously a continued big believer in the Rao's brand. I'm sure we'll talk a little bit more about that. And then, other areas within the portfolio that we don't talk as much about is for instance, V8. And if you look at V8 over the past nine quarters, the team has done a great job to actually stabilizing that business. And in certain areas, like for instance, V8 Energy, we've actually seen double-digit growth.

So, overall, I feel very good about Meals & Beverages and the Meals & Beverages portfolio, in light of some of the trends that we're seeing with regard to the consumer and the continued focus on cooking at home, in combination with our portfolio and the breadth of our portfolio. Now, that being said, I don't expect us, per se, to repeat the Q3 results as we are coming out of the soup season, obviously. But all said, I feel good about where we're at, and I still believe that there's a lot of opportunity going forward within the portfolio.

Kenneth Goldman
Analyst, JPMorgan Securities LLC

Q

Thank you. Very quickly, understanding it's too soon for specifics, you mentioned a couple of factors influencing the bottom line next year. One of them was higher marketing below the gross margin line. Just in light of some of the competitive activities you mentioned today, whether it's RTS, premium pasta sauce, or snacks, is it also reasonable at this point to anticipate an uptick in your promotional activities as well? Not that these activities, so to speak, won't have an ROI that's beneficial, but just on a gross level, I want to get a better, I guess, sense or idea of investments ahead. Thank you.

Mick J. Beekhuizen
President, Chief Executive Officer & Director, The Campbell's Co.

A

Yeah, yeah. Good question. And it's something that we're obviously very focused on it. If anything, I actually – whereas if I looked at about 12 months ago, we were very much continued to increase the overall promotional activity. And it was not just us, you saw it more broadly in the categories. And I'm starting to see that that is stabilizing, and it's much more about – not so much about adding promotional activity or – and it's much more, to my earlier point, making sure that the promotional activity that's in the marketplace is in the marketplace when it really matters, like for instance, during key drive periods. On top of it – and what do I mean by key drive periods? For instance, during the Easter time period, important for soup, broth, and that is a good moment where the brands really matter and you want to make sure that you're out there with the proper price points.

I do think the other piece, particularly when I think about Snacking and on a day-to-day basis, is making sure that we have the right starting price point in the marketplace. And that comes back to that price pack architecture. And when you heard me talk a little bit about Goldfish, for instance, smaller pack size, but also across broader salty, some of these multipack initiatives, and that's actually really working. So, again, I am not looking at much as increased promotional activity from a dollars perspective, it's much more making sure that we allocate the promotional dollars properly. And on top of it, we continue to evolve around PPA.

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

Peter T. Galbo
Analyst, BofA Securities, Inc.

Q

Hey, Mick, Carrie, good morning. Thanks for the question.

Mick J. Beekhuizen
President, Chief Executive Officer & Director, The Campbell's Co.
A

Good morning.

Peter T. Galbo
Analyst, BofA Securities, Inc.
Q

Mick, I maybe want to ask a slight variation on the Snacks question, and understanding we've kind of already addressed a bit of it. But, I mean, like your results in the quarter were more or less in line with how the category has been performing, and I think the broader question is probably just that the category continues to be such a drag. And as we get into what should be a pretty peak demand season over the summer and even just over the next 12 months, I think it would be maybe more helpful to just understand what you think needs to happen from a category perspective in Snacks to actually be able to see some improvements.

So, we have all this discussion about race to the bottom on pricing or lack thereof. But just, you're using comments in your prepared remarks like, are consumers deeming that it's worth it to actually indulgent snacking. So, just like maybe help us from a much higher level to understand what needs to happen from a category perspective for that demand profile and consumers to actually deem the category to be worth it over the next 12 months?

Mick J. Beekhuizen
President, Chief Executive Officer & Director, The Campbell's Co.
A

Yeah. Okay. Let me try to frame it up as follows. So, first, Peter, when I look at the overall category dynamics and you look at that sequential, call it, deterioration that I described earlier, I think one of the key components of that is the deteriorating consumer confidence. And you see that disproportionately play out in categories like Snacks because of the discretionary nature. So, that is one thing that, if there's one area that I could point to, that's one area that I think would actually be helpful, is improving overall consumer confidence.

Then, I think the other aspect of it is, back to your specific question around some of the "worth it", worth it not being as much of the dollars but much more about like the experience. And I think that comes really back to that continued focus on intentionality that we have seen within the Snacking categories, with a broader focus on, on the one hand, value, better-for-you, and then indulgence or flavors or experience, if you want to call it, and the last three all within that, call it, one pocket.

And what do I think is important within that is continue – making sure that we continue to meet the consumers' needs. And you see, for instance, with – a good example of that is in the innovation of Pepperidge Farm Cookies with launch of the Milano white chocolate and the resulting lift that we have had. Of course, on the one hand, around that particular innovation, but also then the broader Milano brand.

So, I just think it's coming back to making sure that we continue to evolve our brands and meet those consumer needs. And if anything, actually, the broader CPG industry has actually done a real good job over time to continue to meet those consumer needs, and that's what we continue focus on and work through as well.

Peter T. Galbo
Analyst, BofA Securities, Inc.
Q

Okay. Thanks for that, Mick. No, that's helpful context. And Carrie, if I can ask a clarification comment. The $0.03 to $0.05 of tariff-related impact that you outlined that that's not included in the guidance but presumably hit the Q4 numbers, should we be viewing that as a full quarter impact? Presumably, you would have carried some inventory maybe into the fourth quarter. So, just want to understand if that $0.03 to $0.05 is truly a three-month impact that, if things don't change, we could kind of run rate forward or if there's some nuance around inventory? Thanks very much.

Carrie L. Anderson
Executive Vice President & Chief Financial Officer, The Campbell's Co.

A

Thanks, Peter. I would say, and when I think about the $0.03 to $0.05 – tariffs are being phased in, right? So, I would say, three main areas of impact that's in that $0.03 to $0.05. First, currently, we're seeing an impact from the Canada wave one retaliatory tariffs. Those went into effect at the beginning of March and they remain in place, and they relate to our Canadian exports of a portion of our soup business that we ship to Canada.

You have other tariffs that are starting to phase in in Q4. You have your Section 232 tariffs that impact tinplate and aluminum, where, obviously, we source for our soup and our beverage cans. And then, you also have the phase in of reciprocal trade actions, which does include the impact of our Rao's portfolio, which is made in Italy, both finished goods as well as raw materials coming from Italy.

So, to your point, that's a net impact, net of mitigation. And as I mentioned in my prepared remarks, we're working to minimize that overall impact, including strategic inventory management, as you referenced earlier, and then working closely with our suppliers here.

I wouldn't be, right now, taking that $0.03 to $0.05 and annualizing it. I wouldn't go there at this point. I think it's a bit too early to say what the fiscal 2026 impact may be, mainly because of the rapidly evolving trade landscape. I would say also, as we mentioned, those tariff impacts are being phased in, and we've had more limited ability to minimize that gross impact. So, the range provided doesn't reflect all of the levers that we are working towards, which some take more time to effect. So, we'd just be cautious to annualize that Q import impact at this time. And obviously working to minimize the overall impact as much as we can that will inform us, ultimately, for our fiscal 2026 view.

Peter T. Galbo
Analyst, BofA Securities, Inc.

Q

Great. Thank you.

Operator: Our next question comes from Megan Clapp from Morgan Stanley. Please go ahead. Your line is open.

Megan Alexander Clapp
Analyst, Morgan Stanley & Co. LLC

Q

Hey, good morning. Thanks so much for taking our question. I wanted to just ask on Rao's, and apologies if I missed it, but I don't think I saw you reiterate the expectation for Rao's growth to be slightly above 10% this year. So, could you just maybe give us an update on how you're thinking about Rao's growth for this year?

Mick J. Beekhuizen
President, Chief Executive Officer & Director, The Campbell's Co.

A

Yeah. Good morning, Megan. So, let me talk about Rao's. So, one – and some of it is also in the prepared remarks – I continue to be very bullish around Rao's and I'm very excited to have Rao's in the portfolio, which is playing also right into or supporting the overall Meals & Beverage divisional growth, and particularly in light of some of the consumer trends we've just talked about.

Now, if you look at the – and maybe I'll step back for a second, it is – or let me first answer your question, it's like we expect that still – I probably, with where I sit right now, expect high-single digit for fiscal 2025. And if I look at year-to-date, in-market consumption is about 10%, 2% this past quarter. That was obviously in line with the overall category, but below our expectations. And as I mentioned in the prepared remarks, we have a pretty good handle on the individual drivers, and the team is all over in-market execution. And as a result, I have a lot of confidence in the continued trajectory or growth trajectory of the brand.

Now, if you look at the L4, so the last four weeks in-market consumption, you actually see some of that already come to fruition. It's obviously always tricky to look just at like L4 periods, but you actually do see that sauce is up 9% and the overall brand is up about 11%. So, feel good where we are with Rao's. And you might have a little bit of timing here and there, but the team is continuing to expand the brand and we're glad to have Rao's in our portfolio.

Megan Alexander Clapp
Analyst, Morgan Stanley & Co. LLC
Q

Okay. Great. That's helpful. Thanks. And Carrie, maybe a follow-up for you just on the margin profile in the fourth quarter and the expectations there. Clearly, you're expecting EBIT and EPS now at the low end on a slower Snacks recovery. Previously, you talked about Snacks margins recovering sequentially in 3Q and 4Q, that did occur nicely in 3Q. Is that still the expectation in the fourth quarter or are there some incremental actions that you're taking that might mean that's not the case anymore?

Carrie L. Anderson
Executive Vice President & Chief Financial Officer, The Campbell's Co.
A

Yeah. I think we were pleased with our Q3 sequential improvement, knowing that we had some discrete items that impacted us in Q2. Saw that rebound nicely in that 300 basis point sequential improvement into Q3. I would say, as we look at first half versus second half, still expecting that sequential improvement from first half to second half. However, given the slower-than-anticipated recovery of our Snacks business, that obviously took us to that lower end of our earnings guidance, we're now expecting Snacks margins to be at 13% for the full year.

I think what we're still focused on is all of those Snacks margin building blocks, including our broader network initiatives that we've been working on, including DSD warehouse and route optimization, as well as those mix improvements as we grow our leadership brands. So, I think it's – but it's also important that we remain competitive in the marketplace and to continue to support our brands for the long-term value. So, we're really trying to make sure we balance both.

Megan Alexander Clapp
Analyst, Morgan Stanley & Co. LLC
Q

Okay. Great. Thank you.

Operator: Our last question comes from Jim Salera from Stephens. Please go ahead. Your line is open.

Jim Salera
Analyst, Stephens, Inc.
Q

Hey, guys. Thanks for taking our question. I wanted to dig in, Mick, on this conversation around the splurge-worthy portion of your portfolio and really trying to kind of categorize how much of Meals & Beverage and how much of Snacks would you kind of put under that broader better-for-you umbrella? And is that – on a go-forward basis, is that really going to be kind of the driver for growth and do we need to see the innovation focused around there and maybe a revamp of some of the overall snack brands to target that consumer? Or is it really just get consumer confidence back and that's kind of the first leg forward?

[Technical Difficulty] (00:56:49-00:57:53)

Operator: Ladies and gentlemen, this is the operator. We're experiencing technical difficulties. Please stay on the line. One moment. The call will resume shortly. [Technical Difficulty] (00:58:02-00:58:07) We've reconnected the host line.

Mick J. Beekhuizen
President, Chief Executive Officer & Director, The Campbell's Co.
A

Great. Can you hear us?

Operator: Yes, loud and clear.

Mick J. Beekhuizen
President, Chief Executive Officer & Director, The Campbell's Co.
A

Thanks. Great.

Jim Salera
Analyst, Stephens, Inc.
Q

Did you hear my question or do you need me to re-ask it?

Mick J. Beekhuizen
President, Chief Executive Officer & Director, The Campbell's Co.
A

Sorry about that, Jim. We had a – we lost power for a second here.

Jim Salera
Analyst, Stephens, Inc.
Q

Well, no problem. Basically, the core of the question was, what percentage of your portfolio do you kind of view as being under this better-for-you, splurge-worthy umbrella? And if we think about what drives the recovery on a go-forward basis, is it really pivoting the portfolio to have a broader focus there and having innovation focus there? Is it we need consumer confidence to rebound and then the innovation and the better-for-you expansion is kind of secondary to that?

Mick J. Beekhuizen
President, Chief Executive Officer & Director, The Campbell's Co.
A

Yeah, yes. So, when I look at where we're at right now and with – if you look at the sequential performance that I described and also the sequential performance of the categories, as I mentioned, the deterioration of consumer confidence definitely did have an impact, right, on the – this – particularly with the discretionary nature of the categories. So, an improvement in overall consumer confidence and – would support the categories as a whole. That being said, we obviously got to make sure that we stay focused on the pieces that we can control and we should – and we are going to continue to evolve with the environment. Hence, you hear me also talk a little bit more about some of these PPA initiatives and the strategic promotional activity.

Now, that being said, I think for the long-term health of the brands and the broader particularly Snacking portfolio, I think that innovation around indulgence and experiences is important. And you've seen that with, for instance, the Milano example that I gave previously. I don't think it's much of a complete reset of the portfolio. I don't want you to take that away. I think we have a lot of things that are actually working well. And if you look, for instance, at our pretzels portfolio, I feel very good about, on the one end, having Snyder's of Hanover, which is much more focused on the pretzel traditionalists, and then the Snack Factory portfolio, which is really in and around that reimagining of pretzels. And they work really nicely together, as you saw this past quarter as well.

And then, on chips, we're actually already in the better-for-you broader segment that is actually growing, whether it's through Kettle or Cape or even Late July. So, feel good about that. And then, on the crackers side, I think we have a unique proposition more broadly with Goldfish. And I'm very confident that the team, with all the things that they're working through it, is going to change the trajectory over time. And so, that is probably, hopefully, giving you a little bit of a sense. It is much more surgical than it is a complete repositioning.

And then, finally, if I look at the Meals & Beverage portfolio, I actually think there, we have a very good collection of brands with premium mainstream, as we've talked about in the past, as well as the way that they are positioned, that I think they are meeting consumer needs really well and we see that in the results this past quarter.

Jim Salera
Analyst, Stephens, Inc.

Q

Great. And if I could just sneak in one quick one...

Mick J. Beekhuizen
President, Chief Executive Officer & Director, The Campbell's Co.

A

Sure.

Jim Salera
Analyst, Stephens, Inc.

Q

...for Carrie. Carrie, you've mentioned some of the impact on Rao's from the import tariffs. Are you guys able to shift more production to Alma or can you give us any sense for what the capacity is there? And if that has a meaningful impact on the unit economics, if you can just have more stuff produced in Alma and just import, I would assume, the raw materials versus the finished product?

Carrie L. Anderson
Executive Vice President & Chief Financial Officer, The Campbell's Co.

A

I mean, I would say, just generally, I'd answer it with all of the steps. So, we're going to look at all of the levers that we have to mitigate tariffs. So, whether it's strategic inventory management, which we're obviously leaning on that hard this quarter here, working in close partnership with our suppliers. And that would include our partnership with La Regina, looking at their – all of what they can bring to help us look at the overall – minimizing the overall impact, and then also looking at product cost optimization. So, I think all of those levers will come into play as we manage that relationship and manage the overall impact for the Rao's brand.

Operator: We are out of time for questions today. This will conclude today's conference call. Thank you for your participation. You may now disconnect.