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Campbell Soup Co. (CPB)

Q2 2024 Earnings Call

CORPORATE PARTICIPANTS

Rebecca Gardy

Senior Vice President & Chief Investor Relations Officer, Campbell Soup Co.

Carrie L. Anderson

Executive Vice President & Chief Financial Officer, Campbell Soup Co.

Mark A. Clouse

President, Chief Executive Officer & Director, Campbell Soup Co.

OTHER PARTICIPANTS

Andrew Lazar

Analyst, Barclays Capital, Inc.

Michael S. Lavery

Analyst, Piper Sandler & Co.

Ken Goldman

Analyst, JPMorgan Securities LLC

Jim Salera

Analyst, Stephens, Inc.

Peter T. Galbo

Analyst, BofA Securities, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Greetings, ladies and gentlemen, and welcome to the Campbell Soup Company Second Quarter Fiscal 2024 Earnings Conference Call. [Operator Instructions] As a reminder, this conference call is being recorded.

It is now my pleasure to introduce your host, Rebecca Gardy, Chief Investor Relations Officer. Please go ahead.

Rebecca Gardy

Senior Vice President & Chief Investor Relations Officer, Campbell Soup Co.

Good morning, and welcome to Campbell's Second Quarter Fiscal 2024 Earnings Conference Call. I'm Rebecca Gardy, Chief Investor Relations Officer at Campbell. Joining me today are: Mark Clouse, 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 slide deck and today's earnings press release have been posted to the Investor Relations section on our website, CampbellSoupCompany.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.

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.

Slide 4 outlines today's agenda. Mark will provide insights into our second quarter performance as well as in-market performance by division. Carrie will then discuss the financial results of the quarter in more detail and outline our guidance for the full fiscal year 2024, which we reaffirmed this morning.

And with that, I'm pleased to turn the call over to Mark.

Mark A. Clouse

President, Chief Executive Officer & Director, Campbell Soup Co.

Thanks, Rebecca. Good morning, everyone, and thank you for joining our second quarter fiscal 2024 earnings call. As you saw in our press release this morning, we once again delivered on our commitments, with sequential improvement in volume trends and year-over-year operating margin expansion in both divisions.

While it is true that category trends have slowed over the last year, I'm encouraged by a variety of stabilizing consumer indicators, like consumer sentiment, household penetration and average categories purchased. However, we are also continuing to see economic pressure impacting select categories and certain consumer demographics.

While we expect these trends to improve over time, we're certainly not there yet. In the meantime, I continue to be very happy with our team's ability to control the controllables, including managing our supply chain and in-market execution.

Looking ahead, we are affirming our full year outlook as we anticipate continued sequential improvement in top line, earnings and margin progress, while sustaining our best-in-class navigation of this volatile environment. Carrie will elaborate on that a bit later.

With that strong foundation in place on the base business, we are eagerly anticipating the closing of the Sovos Brands acquisition in the coming week, adding the best volume-driven growth story in food to our portfolio.

At an upcoming Investor Day in late June, we look forward to sharing the vision for Campbell's Next Chapter, driven by what will be one of the most focused and advantaged portfolios in the industry.

Turning to slide 7, as expected, organic net sales in the second quarter decreased 1% to \$2.5 billion, in line with consumption, with many of our brands exceeding their respective category growth rates and growing share. On a two-year compound annual growth rate basis, top line grew 6%, adjusted EBIT increased 1% and adjusted EPS was comparable to the prior year, following double-digit increases in both key measures a year ago.

On slide 8, we've highlighted the success of both businesses during the holiday season, including in strategic categories, such as condensed cooking in our Meals & Beverages division and cookies in our Snacks division.

Our holiday focus brands delivered a 4% increase in total volume compared to the prior year, driven by our strong brand support programs, terrific in-store execution and robust consumer demand. Specifically, we had healthy volume and dollar share gains across key seasonal categories, such as condensed cooking soup, broth, Pepperidge Farm cookies and Pepperidge Farm stuffing.

During the quarter, condensed cooking holiday volume share reached a five-year high, with volume share gains in each of the nine weeks during the holiday period. In addition, we saw momentum in our Snacks portfolio with brands like Lance, Snack Factory and Late July, all reaching five-year highs in volume share.

Importantly, we delivered these results while addressing an important question about our ability to achieve this, while also balancing profitability. I believe we demonstrated this, evidenced by the operating margin expansion in both divisions.

Turning to slide 9, I wanted to take a moment to discuss the top line expectations for the second half of the fiscal year, as this is both an important driver and a somewhat difficult area to forecast. As we have consistently shared since providing initial guidance, our net sales expectations reflect a range of timelines for the category stabilization and consumer recovery.

Our results through Q2 have been aligned with our outlook. As we look at far easier comparisons ahead, we remain confident in modest sequential improvement throughout the remainder of fiscal 2024. More specifically, we expect flat to low single-digit organic net sales growth in Q3, with continued sequential improvement in the fourth quarter.

Although this trajectory suggests the lower end of our net sales guidance range, we have half the year remaining and a variety of compelling drivers to help accelerate the recovery.

With our supply chain in full force, effective marketing and accelerating innovation and strong but disciplined promotional activity, we look forward to monitoring the pace of consumer recovery closely, with in-market results serving as a clear indicator of that progress.

Turning to our Meals & Beverages business, we experienced a low single-digit organic net sales decline in the second quarter, which, as expected, tracked closely to consumption. On a two-year compound annual growth rate basis, top line grew 4%, while consumption grew 2%.

For the balance of the year, we remain confident in the growth and margin trajectory of this business, as consumers continue to seek out our brands for value and quality in a dynamic environment and year-ago comparisons moderate significantly.

Turning to slide 11, consumers continue to prioritize value. as shown by their preference for home cooked meals, purchasing food that helped them prepare stretchable meals and smaller and less frequent shopping trips. Our soup portfolio is especially well suited to meet these needs.

Our condensed cooking portfolio saw both dollar and volume share increase in the quarter, marking the sixth consecutive quarter we've held or grew both metrics. We also saw similar strength in our broth portfolio, with Swanson broth and stock growing above the category rate and dollar consumption up 13%. In addition, while growing consumption, this portion of our portfolio also had dollar and volume share gains in the quarter.

While the eating soup landscape remains more challenging, we did see sequential improvement in the second quarter, as it relates to dollar share on Chunky and our condensed eating portfolio. The longer-term outlook for ready-to-serve soup remains quite strong, supported by a combination of continued Chunky innovation and marketing, expansion of the successful launch of Pacific ready-to-eat soup. And we're also excited about the

impact of including the strength of the super-premium Rao's soup line, adding approximately a full point of share growth to the portfolio.

On slide 12, let's look more broadly at what the potential next chapter of this great division could be, as we prepare to welcome the talented Sovos team to Campbell's. As we announced last month, both companies have certified substantial compliance with the Federal Trade Commission's second request, and we're excited to be one step closer to completing the acquisition.

Just last week, with their fourth quarter and full year fiscal 2023 earnings results, Sovos announced that they had surpassed \$1 billion in annual net sales, a 16% increase versus prior year, led by Rao's, which continues to showcase its premium brand equity with consumers, with dollar consumption up nearly 32% in pasta sauce and 53% in the combined frozen meals and pizza segment, jarred soup and dry pasta categories.

When paired with our Meals & Beverages iconic category-leading brands and our distinctive fast-growing Pacific Foods brand, the Sovos Brands portfolio will strengthen the division for years to come. In fact, although not an apples-to-apples comparison, if we were to simply overlay Sovos results in the last quarter with our Meals & Beverage results, we would have gained approximately four points of organic top line growth.

Imagine, for a moment now, the value of combining this with our differentiated Snacks portfolio, and you can appreciate our confidence in the strength of this portfolio headed into the future.

So now let's turn to our differentiated Snacks business on slide 13. We delivered a second quarter organic net sales increase of 1%, one point ahead of consumption in measured channels. Our power brands net sales grew 4%, following a 20% increase in the prior year, for 12% growth on a two-year compound annual rate basis. We were pleased with the net sales performance on brands such as Goldfish, Lance, Kettle Brand and Cape Cod, adding to the remarkable track record of our power brands portfolio, even as consumers continue to navigate a tough economic environment.

During the quarter, we experienced anticipated pockets of pressure in some of our lower-margin businesses, specifically partner brands and fresh bakery. We continue to balance short-term competitiveness and sustainable margins, while taking steps to optimize this portfolio for the future.

Partner brands were a one point growth headwind to the portfolio. Although we expect this to continue going forward, it further strengthens the focus of our portfolio on our advantage power brands.

On the next slide, we highlight the sustained resilience of our power brands. As dollar consumption has grown 24% versus two years ago, we're encouraged by the continued appetite for our core portfolio, which now represents two-thirds of total Snacks net sales. More importantly, we see continued progress on dollar share, as power brands have held or gained share for seven straight quarters.

Turning to slide 15, I want to highlight our Goldfish business, which has now held or grown dollar share for six consecutive quarters. Our exciting innovations, proven limited-time only strategy and strong marketing execution have fueled continued momentum for our portfolio.

And our latest innovation, Goldfish Crisps, are off to an amazing start. Launched in January, we realized strong velocities, greater than other recent category launches, and it has exceeded our initial expectations, as we begin to move Goldfish into adjacent occasions.

The news on Goldfish gets even more exciting. Goldfish has now officially crossed \$1 billion in net sales, making it the second \$1 billion brand in our portfolio, alongside Campbell's iconic red and white soup.

Our strategy over the past few years and our continued innovation momentum has propelled Goldfish to its next phase of growth. We remain excited about this brand's momentum and see an incredible road for growth ahead, as we strive to make Goldfish a North American mega brand.

On slide 17, I am also excited to share the continued progress we've made on our Snacks margin road map. On a two-year compound annual growth rate basis, we grew organic net sales by 8% and operating earnings by 15%, with approximately 200 basis points of margin expansion.

We've made great progress this year and remain on track to finish fiscal 2024 at an operating margin of approximately 15%. And as we continue to solidify our margin road map, we are confident in our ability to add about 100 basis points per year for the next couple of years, thus reaching our target of 17% operating margin for the division by the end of fiscal 2026.

Even more exciting is the fact that as we further refine our route to market and direct store delivery, or DSD model, we are identifying even more potential efficiencies and savings, to fund further investment in the brands or to further expand operating margins beyond 17% in the future.

Turning to our DSD transformation initiative on slide 18, I wanted to provide an update on our route strategy, which adds another important element for our plans to create, essentially, a single snacks network. As we discussed during our first quarter earnings call, we're already executing the integration of our warehouse and depot network, as well as upgrading technology across our network and the independent distributor network, with the goal of improving efficiency and effectiveness.

This leaves independent distributor DSD routes as our next optimization area. Today, the majority of our routes are already operating efficiently, where the scale of the business supports separate routes for Pepperidge Farm snacks and Snyder's-Lance. We expect no change in these routes. However, for some of our routes, we do not have enough scale to help maximize the economics or efficiency of these routes, if they remain separated.

To solve this, we've been testing the combination of the entire Snacks portfolio on one truck. In these limited underscaled markets, we purchase certain Pepperidge Farm snacks and Snyder's-Lance routes, combine them and sell the combined routes back to independent distributors. We're seeing that, beyond the efficiency of this, independent distributors have an opportunity to provide better execution and improved service for our customers.

When we pair this improved route with our already existing plans to combine the warehouse system into a single location, the net impact should create better scale and help unlock growth for our business, while also helping to benefit both the area independent distributors and our customers with more compelling economics. It's still early days, but the results we have seen, thus far, give us confidence to expand our pilots and execute a pay-as-you-go model in creating these combo routes.

We expect to convert about a fifth of the snacks routes nationwide into combo routes over a multiyear road map. This plan will not require significant upfront financial outlay. And, as I mentioned earlier, we plan to manage it as a pay-as-you-go model.

Let me share a little more detail behind this strategy. First, these routes will vary in location, including urban, rural and suburban areas. Second, there are no plans to combine the Pepperidge Farm bakery routes, as the focus is

on gaining scale and capturing growth across our Snacks portfolio. Third, in markets where we've executed this strategy, the time between purchase and resale has been swift. And finally, given the financial attractiveness of these routes, we're seeing a meaningful increase in multi-route ownership by experienced independent distributors that are existing snacks and bakery IDPs.

So wrapping up, the second quarter was another solid and consistent quarter, while keeping us on track for the year. Looking ahead, there is so much to be excited about as we continue the transformation of Campbell's. And again, we look forward to providing these details this summer in a full Investor Day.

Next up, Carrie will take you through the second quarter and the second half outlook in a bit more detail.

Carrie L. Anderson

Executive Vice President & Chief Financial Officer, Campbell Soup Co.

Thanks, Mark, and good morning, everyone. I'll start by providing an overview of our second quarter results, with a top line that came in as expected, operating margin expansion in both the Meals & Beverages and Snacks divisions and adjusted EPS ahead of our expectations.

Second quarter organic net sales decreased 1%, lapping a 13% increase in the prior year, for a two-year compounded annual growth rate of 6%. Adjusted EBIT increased 1% to \$364 million, reflecting higher adjusted gross profit, partially offset by higher adjusted expenses, including other expenses, R&D expenses and administrative expenses. Adjusted EPS of \$0.80 in the quarter was in line with prior year and lapped double-digit growth last year.

Slide 22 provides the drivers of our second quarter net sales performance. Excluding the impact of the divestiture of the Emerald nut business, organic net sales were lower by 1%. During the quarter, we generated one percentage point of growth from net price realization, offset by volume and mix, which was unfavorable by two percentage points, in line with the sequential improvement from Q1 that we expected.

As shown on slide 23, second quarter adjusted gross profit margin was 31.4%. We were pleased with the 70 basis point margin expansion, which was driven by supply chain productivity improvements, net price realization, cost savings initiatives and the favorable impact of volume and mix, which more than offset cost inflation and other supply chain costs.

Core inflation in Q2 was low single digits, consistent with Q1, and significantly lower than the 14% in the prior year, driven by attenuation in inputs such as flour and oil. We continue to expect core inflation to stay within this low single-digit range for the remainder of fiscal 2024, down from the double-digit range last year.

Net pricing averaged 1% for the quarter, reflecting the remaining contribution from our wave four pricing, our smallest and most focused pricing round. As a reminder, our wave four pricing is now fully lapped. During the second half of the fiscal year, we do not expect net pricing to be a material driver of net sales growth, reflecting our continued balanced and disciplined promotional activity.

We continue to deploy a range of other levers to mitigate remaining inflation, including supply chain productivity improvements and broader margin-enhancing initiatives. We expect these other levers to contribute to margin performance in the second half of the year, as inflation remains moderate and volume trends continue to sequentially improve.

Through the first half, we have achieved \$915 million of total savings under our multiyear cost savings program, inclusive of Snyder-Lance synergies. We remain on track to deliver savings of \$1 billion by the end of fiscal 2025.

Moving on to other operating items, adjusted marketing and selling expenses were comparable to the prior year. Marketing and selling also remained approximately 9% of net sales, consistent with our targeted level. Adjusted administrative expenses increased by \$2 million, primarily due to higher general and administrative costs and inflation, mostly offset by the benefits of cost savings initiatives.

As shown on slide 25, adjusted EBIT for the second quarter increased 1%, primarily due to higher adjusted gross profit, partially offset by higher adjusted expenses, including other expenses, R&D expenses and administrative expenses. Overall, our adjusted EBIT margin increased 20 basis points to 14.8% in the quarter, primarily driven by a higher adjusted gross profit margin.

Turning to slide 26, adjusted EPS of \$0.80 was comparable to the prior year, and was driven by a slight increase in adjusted EBIT and the benefit of lower weighted average diluted shares outstanding, partially offset by a higher adjusted effective tax rate.

Turning to Meals & Beverages, second quarter organic net sales decreased 2%, driven by unfavorable volume and mix, lapping an 11% increase in organic net sales in the prior year quarter, Meals & Beverages organic net sales grew 4% on a two-year compounded annual growth rate.

During the quarter, modest declines in US retail were partially offset by increases in Canada and foodservice. Sales of US soup decreased 3%, following a 7% increase in the prior year, primarily due to lower sales of ready-to-serve and condensed soups, partially offset by an increase in broth.

We were encouraged by the sequential volume improvement trends we achieved in the quarter, with Meals & Beverages volume only down 2% year-over-year compared to a 6% decline in Q1. On a first half basis, organic net sales decreased 3%, lapping a 13% increase in the prior year.

We were also pleased with the progress we've made on Meals & Beverages operating margins. While segment operating earnings in the quarter for Meals & Beverages were down just slightly, operating margin increased 20 basis points to 17.9%. This was better than expected, and we anticipate continued sequential improvement into the second half. Meals & Beverages operating margin for the first half was 19.2%.

In Snacks, second quarter organic net sales increased 1%. On a two-year compounded annual basis, organic net sales increased 8%. For Q2, the increase reflects net price realization of 3%, partially offset by unfavorable volume and mix of 2%.

Similar to the comments I made when discussing Meals & Beverages results, we were also pleased with the sequential improvement in volume trends in our Snacks business, with Snacks volumes only down 2% year-over-year in the second quarter, compared to a 4% decline in the first quarter.

Sales of our eight power brands increased 4% in Q2, with volumes relatively flat. And for the first half, organic net sales increased 1%, lapping a 15% increase in the prior year. We delivered solid operating earnings and margin performance in Snacks, with a 7% increase in segment operating earnings and a 110 basis point improvement in operating margins in the quarter.

The higher operating earnings were driven by higher gross profit, partially offset by planned higher marketing and selling expenses. Gross profit margin increased due to the impact of net price realization, supply chain productivity improvements, the benefit from cost savings initiatives and favorable volume and mix more than offsetting higher cost inflation and other supply chain costs. Snacks operating margin reached 15% in Q2. And for the first half, operating margin was 14.7%.

As a reminder, the Snacks margin in the third quarter of fiscal 2023 was 16%, up 330 basis points. This was driven by the benefit of last year's wave four pricing, net of inflation, and the timing of marketing spend. So although we do expect negative pressure on Q3 margins given the lap from the prior year comp, we remain on track to approximately 15% margin for the year.

As Mark mentioned earlier, we further expect Snacks margins to increase approximately 100 basis points per year over the next two years, reaching our stated goal of 17% by the end of fiscal 2026.

I'll now turn to cash flow on slide 29. We generated \$684 million in operating cash flow in the first half and deployed that cash consistent with our capital allocation priorities to maximize long-term shareholder value.

Year-to-date capital expenditures were \$263 million, \$108 million higher than in the prior year, reflecting our commitment to invest for growth, particularly in capacity for our Snacks division, as well as investments to drive productivity and enhance business capabilities.

We also continued our commitment to return cash to our shareholders, with \$224 million of dividends paid and \$29 million of anti-dilutive share repurchases in the first half. Our balance sheet continues to be stable, with net debt of \$4.4 billion and a net debt to adjusted EBITDA leverage ratio of 2.6 times.

At the end of the second quarter, we had approximately \$169 million in cash and cash equivalents and approximately \$1.85 billion available under our revolving credit facility. All-in, with the \$2 billion delayed single draw term loan credit agreement, we are well positioned to close the pending Sovos Brands acquisition.

As you'll see on slide 30, given the consistent and improving performance in Q2, we are reaffirming our full year guidance provided on August 31. In the second half of fiscal 2024, we continue to expect earnings growth and margin progress, particularly in Q4, benefiting from improving volume and mix trends, moderate inflation levels and the flow-through of ongoing productivity improvements, as well as second half marketing and selling expenses at our stated targets, which will provide some year-over-year margin benefit in the second half.

To provide a bit more clarity about the phasing of the second half, in Q3, we would expect adjusted EPS to be in the lower \$0.70 range. As Mark mentioned earlier, top line guidance reflects a range of outcomes based on the speed of in-market category stabilization. We are encouraged by the sequential improvement in year-over-year sales, with first half volumes coming in largely as anticipated, and we remain highly confident in the continued stabilization and ultimately returning to growth in the second half.

We are currently pacing to the lower end of the net sales guidance range for the full year. However, we still have half of the year remaining, with excellent plans and innovation to help accelerate the rate of sequential improvement moving forward.

We will continue to invest in our brands with marketing and selling expenses as a percent of net sales expected at the low end of our targeted 9% to 10% range. From a phasing perspective, we expect to spend more in the third quarter relative to the fourth quarter. All other guidance assumptions remain unchanged.

Additionally, the pending acquisition of Sovos Brands is currently expected to close the week of March 11, 2024, and is not included in our current fiscal 2024 outlook. After the transaction closes, we expect to update guidance for the combined business during our third quarter call.

To wrap up, our second quarter tracked closely to our expectations, driven largely by the actions we undertook to position our business for second half momentum. We are confident in our plans for the rest of the fiscal year, and our team remains focused on executing our strategy.

Within both segments of our business, we expect to deliver margin momentum in the second half, paired with improvements in the trajectory of volume and mix. In addition, we are excited to be one step closer to completing the Sovos Brands acquisition and look forward to welcoming their team to Campbell's.

With that, let me turn it over to the operator to begin Q&A.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Andrew Lazar from Barclays. Your line is open.

Andrew Lazar

Analyst, Barclays Capital, Inc.

Q

Good morning.

Mark A. Clouse

President, Chief Executive Officer & Director, Campbell Soup Co.

A

Hi, Andrew.

Andrew Lazar

Analyst, Barclays Capital, Inc.

Q

How are you doing?

Mark A. Clouse

President, Chief Executive Officer & Director, Campbell Soup Co.

A

Good.

Andrew Lazar

Analyst, Barclays Capital, Inc.

Q

Mark, maybe to start off, you talked about sales tracking towards the lower end for the full year. I don't think that comes as a big surprise, just given the broader sort of industry challenges that a lot of the food companies are facing at the moment. But obviously, even at that lower end, it does require a pivot, right, to positive growth in the second half. And with no real benefit expected from pricing, obviously volumes got to drive that. Maybe you can go through just a couple of the key points. You mentioned a few, but just what really drives your visibility and confidence to that outcome? And then, as Carrie talked about, EPS a little more fourth quarter weighted, given the

cadence of spending and some other things. But maybe you can also comment a little bit on that, what drives that specifically, so we have a better handle on that.

Mark A. Clouse

President, Chief Executive Officer & Director, Campbell Soup Co.

A

Sure, yeah. And maybe Carrie and I can kind of tag team together. So, yeah, let's first talk about the top line. The first thing that I would just say is, the good news is through the second quarter, we're essentially right where we expected to be on top line.

And I think that sequential improvement that we saw from Q1 to Q2 is very important, because that kind of supports, if you will, a little bit of the trajectory that we anticipated and planned for the back half. I think you hear a little bit more cautious tone relative to the ranges.

And from the beginning, we've kind of said the guidance range kind of is predicated on a little bit of the sensitivity of the speed at which we see some of these categories responding. And I think what you're getting from us is just a little bit more probably, not so much of a specific factor, but more of just a bit of caution and ensuring that we see the variables that we expect and whether that indicates low or high-end of the range.

So we're certainly not suggesting that we are for sure on the low-end of the range. But from what we can see in variables today, thought it was prudent to kind of position it that way.

Now, why do we see sequential improvement in the back half? Well, the first thing I just would point out, this is not some massive hockey stick, right? So we kind of down 2% in Q1, down 1%, as we said, kind of flat to 1% in Q3, sequentially better in Q4. So it's a pretty steady drumbeat of more modest improvement as we go through the back half of the year.

And I think, as we've said all along, one of the biggest variables that gives us confidence, and this is one of those areas that I think, in looking at kind of pacing or benchmarking with other companies in this moment of transition, part of it is what you're lapping and when you're lapping it, that sets up a little bit of the speed of recovery.

But we're, as you know, we are lapping in the first half of the year, growth rates that were closer to 13%, 14%. And in the back half, we're going to be lapping 5%. On volume, just to give you a little bit of that delta, in the first half of 2023, we were cycling about 1.5% of vol mix decline. We move into the back half, we're going to be lapping about a 6% vol mix decline.

So both on the net sales and the vol mix, the comps are going to get significantly easier. So in theory, if you didn't expect any improvement in consumer dynamics, you would essentially see some sequential improvement that kind of supports the glide path we're on.

Now what we're hoping for is that the combination of what we're doing, which I think our execution to-date has been a point of pride for the company, especially as you look at our performance through the holidays and we've got a lot of ammunition. We probably have one of the strongest back half innovation funnels we have on paper, about 1% of growth contributed from our innovation, very strong marketing.

You won't see the incremental step-up in the back half that you've been seeing as we've kind of settled in at that 9% of net sales for marketing and selling as we go into the back half. But I would say very, very focused, highly relevant. We've continued to learn a lot about what's working in this environment. And we'll continue to drive it.

And then finally, it is not as if we're not seeing some green shoots. I always feel like I'm cheating a little bit. Reporting after CAGNY, I get to hear everybody's point of view on the consumer. The good news is I think much of the dialogue would be quite consistent with what we're seeing. Consumer sentiment's improving. Household penetration in many of the categories have kind of turned the corner. We're seeing improvement, albeit still fewer trips to the supermarket, we're seeing a little bit of a step back up in the number of categories purchased, the number of servings purchased. All of those, to me, provide pretty compelling evidence that we will see the turn.

And, just as a reminder, our two-year comps, right, are continuing to look very strong, plus 6% in the second quarter as an example. And even with the numbers that I was giving you relative to outlook for the back half, you'd be in a similar two-year comp range.

And so it's not as if on a two-year basis, you're seeing some catastrophic structural change. But there is no doubt that the speed of recovery is what we're all trying to pace. So those are all good signs for us and give us the potential of seeing improvement faster than what we may be projecting today. But that gives you a little bit and probably pretty broad real estate of exactly why we feel very good about the back half. Although we may be a little bit more pragmatic with our outlook right now, I'm still hopeful that there's a lot of variables in the last six months that we could see that accelerate.

Andrew Lazar

Analyst, Barclays Capital, Inc.

Q

Right. Great. I'll leave it there. Thank you so much.

Mark A. Clouse

President, Chief Executive Officer & Director, Campbell Soup Co.

A

Great.

Operator: Your next question comes from the line of Ken Goldman from JPMorgan. Your line is open.

Ken Goldman

Analyst, JPMorgan Securities LLC

Q

Hi. Thank you. Just to dig in a bit deeper on the wording of the back half, I guess, and really implied back half guidance, Mark, you said you're currently on pace for the lower end of annual guidance, and that's really in the name of pragmatism or prudence. But you also, I think, said that the first half's top line came in broadly as expected. So I'm just curious, if I can get a little more precise on – are 3Q shipments maybe starting off a little more slowly than you might have anticipated? And within that, you mentioned that Chunky share trends are improving, but it's still a bit challenging. So I'm just trying to, I guess, get a little more focused on which parts of the business are the main reasons for the added prudence.

Mark A. Clouse

President, Chief Executive Officer & Director, Campbell Soup Co.

A

Yeah.

Ken Goldman

Analyst, JPMorgan Securities LLC

Q

Kind of the right way to think about it. Thank you.

Mark A. Clouse

President, Chief Executive Officer & Director, Campbell Soup Co.

A

Yeah. No, I think, Ken, what I would tell you, from a Campbell's standpoint, our performance relative to the categories is very consistent in the sequence of improvement and the strength in different areas. Again, from what we've seen in the beginning of the year through, I mean, continued strength on broth and all of our cooking businesses, as that stays highly relevant for consumers, very, very strong, a little bit more softness on ready-to-eat soups, but not different than what we would have expected.

I think the – let's call it a little bit of the hesitation, has probably been more anchored in the speed at which the categories are recovering. And I would say, from a Meals & Beverage standpoint, pretty much in line with the trajectory, I mean, I think everybody is aware that January was obviously a very strong month and arguably a little bit better due to the weather. Although, what I would tell you is, as we think about it and look at it, the good news is that weather is more normal than what we've had the last couple years.

So always difficult to talk about weather. But I think January generally pretty strong, but the trend, the underlying trend in the category, is pretty much where we expected.

I would say Snacks is a little bit slower, if there's one where in the category dynamics, we're seeing a little bit more moderation. But I do continue to be reminded that when I look at these businesses and look at these categories on a two-year basis, you continue to see really strong results. I mean, in fact, our power brands, which are two-thirds of our business on a two-year basis, are up 12%. So there probably was a little bit maybe of overshooting relative to expectation on the speed of recovery in the Snacks' ones. But I think relative to what we expected or what's giving us a little bit of, I would say, pragmatism, because, again, I want to be really clear, we've got a lot of months left in the year to see us continue to shape the curve based on our own execution.

But I would say those are the areas that are giving us a little bit more of this outlook that's moving a bit down. And remember, we guide in pretty tight ranges, too. So the difference between 1% and zero, not insignificant, but certainly, I think in a world where it's pretty variable right now, I think a little bit of pragmatism is probably appropriate.

Ken Goldman

Analyst, JPMorgan Securities LLC

Q

And then, can I ask a very quick follow-up to that? And thank you for the color. When I speak with investors about, I guess, the bull and bear cases on your stock and other companies, one of the bearish cases I hear is that the salty snacks category in general is a little weaker than what people expected, and that maybe that will continue if some of the larger players get a little bit more nervous about their share, maybe invest a little more in price. Are you seeing any of these dynamics take place, whereby there's an irrational amount of maybe price investments? Or just trying to get a little bit better sense of what you're seeing in salty snacks that's maybe not going quite as well, because it's been such a great category for so many years and decades.

Mark A. Clouse

President, Chief Executive Officer & Director, Campbell Soup Co.

A

Yeah. So, no. I think what you're seeing is generally a pretty consistent with history. It's funny. As I – a lot of the devil is in the detail of unpacking these categories. And it's interesting. As I talked about that two-year CAGR on power brands for us, as you pull back and look a little deeper at the salty categories, they are the strongest two-year growth rates that we have within the business.

So arguably, salty is lapping the most challenging comps of – given the strength of where it was a year ago. I do think, as I've said all along, this is salty snacks, right? So this is not a category where you're not going to have promotion, where you're not going to have competitiveness as you think about the players that are in this space. But I'm not seeing anything that indicates to me that people are becoming irrational or that they're trying to chase this cycling down.

Again, I would say, whether it's we under-anticipated the strength that we were lapping or whether the category is a little more challenged than we expected in the near term, I am really not worried about this being structural. And even when I look at some of those early lead consumer indicators, like I mentioned before, you're seeing positive movement. I truly believe this is not a matter of if these categories respond. It's just a matter of when and trying to time it and gauge it is what makes the current moment we're in a little bit more challenging. But structurally speaking, I'm not seeing anything that gives me any real pause, relative to what I think is going to be a very, very healthy longer-term trajectory for us, both in the salty side but also in the cookie and cracker side.

Ken Goldman

Analyst, JPMorgan Securities LLC

Q

Thank you.

Operator: Your next question comes from the line of Peter Galbo from Bank of America. Your line is open.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

Hey, guys. Good morning. Thanks for taking the question. Carrie, maybe just to start, can you just help us out, like the contribution from both foodservice and Canada to Meals & Beverages, I think you said was a positive offset in the quarter. Maybe just what that was and what's embedded kind of throughout the second half on those two pieces of Meals & Bev.

Mark A. Clouse

President, Chief Executive Officer & Director, Campbell Soup Co.

A

So maybe I'll jump in first on the top line. So Canada and foodservice continue to be performing extremely well. Now, as you might remember, Peter, we had the nice recovery of a year ago in foodservice, but it was still positive, low single digits.

Canada had an especially strong quarter. And it contributed about one point of growth. And so if you're doing the math between net sales and in-market consumption, one might ask the question of, all right, if you got one point of contribution from [ph] nabs in (42:46) Canada and Meals & Beverage, why were you a little bit lower? And that was a function of actually seeing a bit more depletion of inventory in the second quarter.

And, again, I think I wouldn't call that a big indicator of a upsized recovery in Q3, but I think a little bit of just normalizing as we ran through the holiday season, which is always a little bit of a guessing game relative to inventory. So I think we're finishing in a very good spot, but we got a little bit of help from [ph] nabs in (43:18) Canada that we're able to balance a bit, a little bit of inventory pressure on the base business, but you're talking in totality within about one point of movement on the Meals & Beverage side.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

Great. No, thanks, Mark. That's helpful. And then maybe, Mark, just to switch over, you did spend some time talking about the combo strategy on the DSD route.

Mark A. Clouse

President, Chief Executive Officer & Director, Campbell Soup Co.

A

Yeah.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

I know it's pretty early days, but maybe you can just give us a sense of that 20%, are you less than 1% converted at this point? And what have you learned I guess, both positive and maybe any challenges you've run into thus far? Thanks very much.

Mark A. Clouse

President, Chief Executive Officer & Director, Campbell Soup Co.

A

Yeah. So needless to say, this may be more exciting to us than the outside world, but this is a really important step in the journey, because really, since I've been on the business, when you look at our business and you see the complexity of multiple DSD routes on snacking and you see the disparity geographically in scale, it does really beg the question of is there no way to put these businesses together?

And I think what we did, which was smart, was to kind of tread lightly and move in a very methodical and pragmatic way. But you now hear us through what has been a couple years of really working on what's possible and feeling really good about what we're learning on the combo routes. And so, as you can imagine, one of the questions we had to answer is, okay, you have an independent distributor that's now going to two aisles in the store.

And so what inherently you're going to have to have is enough scale that represents or that is still economically beneficial for that independent distributor to spend more time in a single store. So the math in this to get it to really work well, to make it the win-win that we want it to be, is this opportunity of maximizing in-store execution, while the economics of the drop size is being substantial enough that it really encourages or make these routes attractive, while also dealing with the fact that when you're underscaled on these routes, and this may not be as obvious to everybody, is, as you might imagine, if the economics are not good on routes for an independent distributor, it's a real challenge for them and the ability to invest in their business, the ability for them to dedicate the time and effort is a real challenge.

And so the better we make the economics, the better it is for the IDP and the better the service and support is for our business and for the customer. And so, I think what you hear us saying today is that we actually feel really good about it.

And I just would say the other big question that we had was, okay, if we're buying back routes, how complicated or difficult, how long will we have to hold the routes before we get a buyer? And I would say what's been really exciting, although, again, I think you hear a level of, again, pragmatism in the rollout as we continue to validate this as we go, but the early signs is it's a fairly expedited process, right?

We kind of line up the right buyers. We get them ready. We acquire the routes. And then, in many cases, these are people that are in our network already. They may be an owner of an existing Pepperidge Farm route or a Snyder's-Lance route. And so, the speed at which to convert on that has been very good. And so now this gives

us kind of the final piece of the puzzle to being able to plot forward to really a single snacks network, even though in much of the country, you'll still see a dedicated Pepperidge Farm and a dedicated Snyder's-Lance truck, it's all running through the same singular network. And in places where we didn't have the scale, you'll see these combo routes that are going to give us a great expansion of what I would call the same level of support we're getting in those scaled markets, we'll now be able to deliver in a much larger percent of the country, which is why we're so excited about it.

Operator: Your next question comes from the line of Michael Lavery from Piper Sandler. Your line is open.

Michael S. Lavery

Analyst, Piper Sandler & Co.

Q

Thank you. Good morning. I just wanted to start following up a little bit more on that DSD color. And I would love to get a sense – I know it sounds like it's a fifth or so of the total, so a smaller piece, but can you quantify what the savings might look like from this and how to think about the economics of how this progresses?

Mark A. Clouse

President, Chief Executive Officer & Director, Campbell Soup Co.

A

Yeah. So, obviously – so as we said, it's about 20% – to do the – all of the markets that we've sorted into kind of, let's call it, underscaled with the potential of combo, it's about a fifth or about 20% of the routes we have. As you may remember, we've talked about this part of the journey really being a component of several different elements that come together to really address route to market. So the combination of the warehouses, the combination of the depots, added technology and capability both for the IDPs as well within our warehouse network, and now this ability to convert into combo routes in a fifth of the country.

The economics of this relative to how we've managed the investment is both an efficiency and an effectiveness play. So the good news is, you're getting margin and efficiency, arguably a bit more through the warehouse consolidation and the depot consolidation, although I would say combo routes are going to give you some intrinsic savings as well. But then as you move to the idea of where the effectiveness comes from, I think the technology upgrades, as well as the combo routes, are going to give us a very healthy boost in some markets, where, arguably, we've been underperforming as we've been just lighter on scale and support. And so, the economics of this are really the combination of both what we perceive to be the improvement in top line, which, of course, is still at the heart of what we want Snacks doing, but also contributing to the business.

So what – and we'll talk a little bit more about this Investor Day, but what you're seeing, not inconsistent with what we talked about in the past, is it's probably 50 basis points of margin that I would say is more directly related to distribution. And that's really through a timeframe of 2026. I do think as you look beyond it and the timeline for completing this will give us a little bit of dry powder, even beyond the 17% that will give us some optionality, either to spend back and invest in the business or potentially drive margin even further beyond the 17% that we talked a little bit about today in fiscal 2026. But in the nearer term, probably relative speaking, about 50 bps of margin benefit from it is a good kind of approximation.

Michael S. Lavery

Analyst, Piper Sandler & Co.

Q

Okay. That's really helpful. Thanks. And just a quick follow-up on some of the comments on the portfolio. You've touched on the attractive balance and the Investor Day slide, looks like you'll highlight how you're thinking about that. We've had questions in the past about would a split ever makes sense. It sounds like that's not on your

radar. Is that how you're thinking about how you go forward and just how the two pieces of the business fit together? That would be great. Thanks so much.

Mark A. Clouse

President, Chief Executive Officer & Director, Campbell Soup Co.

A

Yeah. Look. Yeah. No, good, very good question. I think the short answer to that is we're going to let shareholder value kind of drive a little bit of that dialogue. I will say that I've been very consistent, I think, from the beginning, that even if for whatever the economic case is for a split of the company, I would want to do that from a position of strength.

And so the moves that you see us making and what we've been doing to kind of transform, I would say, the portfolio and the business over the last several years, is going to set up what I think is going to be a best-in-class grocery business with Meals & Beverage and a best-in-class snacking business, that on the Meals & Beverage side, you're now adding these very compelling growth stories in what we're calling more of the distinctive or premium brands, while having a very solid foundation of mainstream brands and a more differentiated Snacks business that now has a simplified both route to market and manufacturing platform that really gives us now, I would say, both halves of the business in its strongest position.

And so now with that, as we kind of live into that over the next year or so, I think we'll have a great understanding of what is the value potential and how should we judge it versus other options. But know that we'll always look and evaluate. But right now, I feel like all roads through – lead through executing and delivering on this vision that we have for both of the divisions. And I think if we do that, we're going to have a very compelling story within food.

Operator: Your next question comes from the line of Jim Salera from Stephens. Your line is open.

Jim Salera

Analyst, Stephens, Inc.

Q

Hi, guys. Thanks for taking our question.

Mark A. Clouse

President, Chief Executive Officer & Director, Campbell Soup Co.

A

Hey, Jim.

Jim Salera

Analyst, Stephens, Inc.

Q

Mark, I wanted to circle back to some of the commentary around the back half cadence for the top line. If I look at Goldfish, in particular, I believe they gained dollar share in the second quarter, which is up from flat in the first quarter. Just any color around what's driving the success there, if that's something that can be kind of replicated across some of the other snacking brands. And if we think about a reacceleration or an acceleration in the back half, what components of the snacking portfolio would you expect that to come from?

Mark A. Clouse

President, Chief Executive Officer & Director, Campbell Soup Co.

A

Yeah. So it's a great question. Goldfish is, as we said, kind of foundational and, in many ways, has been this great example for us of how do we drive these iconic differentiated snack brands. And the magic in Goldfish has really been this combination, I would say, of good base business support, while expanding into adjacent consumer

targets initially, and, now with Crisps, really into adjacent occasions, so that we're now able to begin to source from other snacking categories that fit better, like think of chips or more of a munching occasion that Goldfish is now competing with and off to an extraordinary start.

You pair that with the success of our limited-time offerings and much of our innovation in the past has been successful as well. You might have heard a little bit, too, of kind of a subtle nod to geographic opportunity, as I mentioned, as a more North American mega brand, and there is significant runway on Goldfish as we think about Canada and even Latin America. As we continue to dig deeper there, we're seeing real opportunity for white space in those areas. And so when I think about Goldfish, and I think about what we've done now to prove the expandability of the brand, I think it is a great blueprint.

Now, I would argue that we've done a very good job in other brands, like Late July, our Kettle Brand, where we've been able to add different occasions, like air fried on Kettle, flavor variety that really brings excitement, the limited-time offering model. You see us expanding that to other parts of the business, even more recently to cookies. If you haven't tried the London Fog Milano, excellent product. And so there's a lot of – I think, a lot of great learning that's going to travel to brands that are highly relevant in doing that. And I think you put those elements together, not only do you feel good about the continued runway on Goldfish, but even more along the way.

And, look, I don't think it's exclusive to snacking. I think the ability for us to bring the Goldfish playbook to Meals & Beverage is equally relevant. And I would argue that although, yes, we're cycling through a little tougher time on ready-to-eat soup, if you look over the last several years, I mean, Chunky has just had a great, great run, again, driven by a very similar approach of great foundational-based marketing and just some super innovation that we've been bringing to the table, including some limited-time offerings that have been quite effective as well.

So I think the company, in general, has distilled down a pretty good playbook now that, yes, was probably born of Goldfish and Chunky, but that you see us applying now more broadly across the portfolio.

And I'll just conclude by saying, I think we're going to inherit another great playbook in the Sovos team and what they've been doing on building the Rao's brand. So I'm excited to kind of get that on the table as well and continue to use that as kind of evidence or support for why I think these businesses in the future are going to really be best-in-class in contributing steady, predictable, sustainable growth.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.

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