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# Campbell Soup Co. (CPB)

Q2 2023 Earnings Call

## CORPORATE PARTICIPANTS

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

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Greetings, ladies and gentlemen, and welcome to the Campbell Soup Company Second Quarter Fiscal 2023 Earnings Conference Call. At this time, all participants are in listen-only mode. After today's presentation, there will be an opportunity to ask questions. [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 2023 earnings conference call. I am Rebecca Gardy, Chief Investor Relations Officer at Campbell Soup Company. Joining me today are Mark Clouse, President and Chief Executive Officer; Carrie Anderson, Chief Financial Officer; and Mick Beekhuizen, President, Meals and Beverages.

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 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 this presentation.

On slide 4, you'll see today's agenda. Mark will share his overall thoughts on our second quarter performance, as well as in-market performance by division. Mick will discuss the financial results of the quarter in more detail, and Carrie will then review our guidance for the full year fiscal 2023.

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

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## 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 2023 earnings call. As you read in our press release this morning, the momentum of our business continued as we delivered another strong quarter, with double-digit growth across all key metrics: net sales; adjusted EBIT; and adjusted EPS compared to the prior year.

These results continue to reflect the strength of our strategic actions over the last few years and consistent top-tier execution, despite significant market volatility. We have grown our portfolio of highly relevant iconic brands in key categories, with a strengthened supply chain, elevated marketing and investment, new capabilities and impactful innovation. We've delivered broad-based market share gains and positioned our business for sustained future growth.

We have also successfully navigated the dynamic economic environment, using a variety of levers to mitigate inflation, including targeted pricing, cost savings initiatives and productivity improvements, and we've managed well below historical levels of elasticity as volume/mix declines remain modest.

This challenging but critical algorithm of balancing growth, share, margins and volume has been a key focus of ours over the last several quarters and the second quarter is another key proof point of our continued successful execution of this plan. Our strong business fundamentals, together with the strength of the first half performance and the continued health of our brands, give us the confidence to raise our net sales guidance, as well as raise the midpoint of the adjusted EBIT and adjusted EPS guidance we previously communicated for the 2023 fiscal year. This reflects continued momentum on top line, with greater confidence in our profit and earnings, despite some additional pressure from lower pension income.

Now, let's cover some specifics from Q2. Organic net sales increased 13%, supported by favorable inflation-driven net price realization and strong consumer demand for our brands. Total company dollar consumption grew 10% in the quarter versus the prior year and 20% versus three years ago. As we expected, the gap between net sales and consumption was driven primarily by continued recovery in our foodservice business, albeit at a lower rate than in Q1.

Overall, we held dollar share versus the prior year and continued to make significant progress, particularly in the snacks business, as we are successfully reinvesting in our brands and continuing to strengthen our supply chain. This performance in snacks marks a significant step in our journey, as we continue to emerge as a truly differentiated and best-in-class snacks portfolio.

In Q2, we had the strongest share growth in both cookie, cracker and salty snacks among all major branded players, even more impressive as we are among a very few who compete in both of these critical categories. Although benefiting from pricing, we also drove favorable volume mix. One additional important note is the snacks margin also improved, while increasing investment by 19% on marketing and selling.

Turning to profit for the company, adjusted EBIT increased 14%, driven primarily by top line growth and modest gross profit expansion, despite increased marketing and selling expenses versus prior year. Our teams continue to successfully navigate the inflationary environment, leveraging a number of different tools beyond pricing, such as driving operational efficiencies and productivity improvements. We're confident that over time, we have compelling initiatives and road maps to drive margins and deliver our longer-term goals.

Adjusted earnings per share was \$0.80, up 16%, reflecting strong EBIT flow-through. We did experience some limited pockets of volume declines in the quarter, specifically in our Meals & Beverages division and particularly in the last four weeks of the second quarter. These year-over-year declines were primarily due to lapping last year's significant Omicron surge and favorable year-ago winter storm impacts rather than increasing elasticities due to pricing.

In fact, overall elasticities remain as we expected and are favorable to historical norms. However, as we said several quarters ago, we do not expect all brands and categories to react exactly the same. Therefore, we remain highly vigilant of price gaps on key brands and are closely monitoring elasticities. In places where we are experiencing higher impacts from competition or slower category trends, like condensed soup or broth, we're taking appropriate and pragmatic actions to continue to remain competitive and drive sustained profitable growth.

Turning to our divisional results, our Meals & Beverages portfolio remains well positioned in growing categories and consumers continue to seek out our brands, as they look for ways to stretch their food budgets and turn to value-driven meals that taste great and are easy to prepare.

Organic net sales increased 11%, driven by favorable net price realization, partially offset by modest unfavorable volume and mix. In-market dollar consumption in our Meals & Beverages business grew 6% over the prior year and 17% compared to three years ago, reflecting the continued health of our portfolio.

Our US soup business, which represents more than half of the wet soup category, grew dollar consumption by 4% in the second quarter despite increasing promotional pressure from private label.

Our dollar share did decline by 0.6 points versus prior year as the category overall grew by 6%. We continue to feel great about the long-term health of the category and our ability to drive sustainable growth and share over time. In fact, we continue to grow share in key strategic areas of the portfolio in this quarter.

Condensed icons, for example, Tomato, Chicken Noodle, Cream of Mushroom, and Cream of Chicken, grew dollar share by 1 point versus prior year, driven by multi-packs, which are resonating with consumers as they seek value.

Also, condensed cooking SKUs overall are growing share as the cooking behavior and great recipe marketing is driving increased relevance as consumers feel continued pressure economically.

A couple of great examples of this is our Jacked Up Mac & Cheese recipe that features our cheddar cheese condensed cooking soup and our Easy One Pan Beef Roast with vegetables recipe, which features our French onion soup, both of which cost under \$4 a serving.

Chunky also continued to perform well, with share gains of 0.2 points. This marks the sixth consecutive quarter that Chunky has grown dollar share and has held or grown volume share. This success has been further fueled by the expansion of our new Spicy innovation platform.

Spicy Chunky Chicken Noodle continues to perform very well and now we have three additional spicy SKUs on the Chunky roster, all of which are resonating exceptionally well with consumers.

We also built significant buzz this winter with a limited time offering of Chunky Ghost Pepper, which we'll be returning nationwide for soup season this coming fall. Pacific Foods also had a very strong quarter, gaining share and momentum, particularly with millennials. Pacific is extremely well-positioned across a variety of categories as a premium organic and healthy brand, with offerings in broth, ready-to-serve soups and beverages.

In the quarter, consumption was up 17%, and the brand held or grew share in its segments for a total share gain of 0.3 points. In the quarter, Pacific was the fastest-growing branded wet soup product on a dollar basis in all of the measured channels in IRI. And in soup, Pacific continues to hold the number one share position in the organic category.

We are never satisfied with any share loss on the business, but the share pressure we have experienced within condensed soup and broth are both consistent with expectations and concentrated more in the tail of the condensed business versus on our strategic core.

The team continues to remain very vigilant and we continue to ensure we remain competitive without undermining long-term profitability. The great news is we continue to see strength in the category. And in the longer run, given our decisive leadership position, it bodes well for the future.

In Italian sauces, dollar consumption grew 8%, while share declined slightly by 0.8 points. The Italian sauce category remains very relevant and continues to benefit from consumers seeking value and meals that the entire family loves and can easily be prepared at home. In Alfredo, we gained dollar share of 0.3 points versus prior year as service and availability improved.

And finally, we saw the greatest incrementality in the last five years from our latest Prego innovation, which included spicy marinara, creamy tomato basil and other elevated flavor varieties.

In Mexican sauces, Pace performed well with dollar consumption up 12% in the quarter and share gains of 0.3 points, marking the fourth consecutive quarter of share growth. Volume share rose for the fourth consecutive quarter, up 0.4 points, enabled by service improvements of 20 points versus prior year.

Pace held or grew share across all segments of its portfolio, and we're excited about our innovation launches with this brand, particularly our Pace ghost pepper habanero as we take advantage of the continued strength of Mexican meals prepared at home.

Turning to Snacks, the division had another excellent quarter as we continue to win versus the competition, supported by substantial brand building and recovery across our supply chain. Our strong top line growth of 15% was driven by favorable net price realization, volume gains and continued growth of our power brands.

In-market dollar consumption grew 20% in aggregate on all eight power brands, and seven of eight of those brands grew dollar share. All brands grew across dollars, volume and units, showing the power of our portfolio and the relevance of the consumer snacking behavior even in this current economic environment.

Our snacks brands also had a very strong holiday season. Pepperidge Farm cookies gained 0.7 points of dollar share, driven by merchandising support, new packaging designs, limited time offers and the return of our fancy

Santa Milano marketing activation. Snack Factory pretzel crisps gained 4.1 points of dollar share, driven by the strength of the Bites innovation and our seasonal sweet and salty drizzlers.

Our Snacks division is demonstrating outstanding momentum with the last two quarters growing double digits. Campbell Snacks has also significantly stepped up share growth among branded players in the cookie cracker and salty snack categories.

As you can see on slide 14, we are number one in both the cookie cracker and salty snack categories in terms of share growth in the second quarter. This continues to highlight how unique our snack brands are and why we see such a bright future for this portfolio.

One of those brands, Goldfish, which is climbing to our goal of \$1 billion in annual sales, continues to be the star of the Snacks business. As one of the company's primary growth engines, the brand continues to perform extremely well, with 21% consumption growth and share gains of 0.7 points. This was the second consecutive quarter of Goldfish being the largest driver of growth for the entire cracker category.

And our strategy to expand our consumer target has been even more successful than expected, with growth versus prior year in both buy rates and repeat rates among households without children about equal to households with children.

We continued our track record of having top-performing new items in each of the last six quarters, where Goldfish has had limited time-only launches. The Goldfish LTO strategy that we put in place is working, with consumers twice as likely to purchase LTOs alongside other Goldfish items.

We're also driving strong momentum on innovation for our snack brands. We recently announced the new Kettle Brand air fried potato chips. We're the first company to commercialize air frying as a manufacturing technique in snacking, enabling us to be first to market with an air fried chip. We've developed a patent-pending technology to kettle-cook and air-finish potato chips to deliver a light and crispy texture with 30% less fat than the original version. Initial customer and consumer reaction has been extremely positive.

Overall, I'm pleased with our performance this quarter. With focused execution, strong in-market results and strengthened supply chain capabilities, we are well positioned for continued growth, even in a dynamic consumer and economic environment of today.

As we go forward and begin to cycle some of these unprecedented periods we've experienced, I've never been more confident in the strength and relevance of our brands, our ability to deliver best-in-class execution and the path for sustained, compelling and differentiated value creation.

Before we review the financial results in more detail, I want to quickly comment on the announcement we made in January to consolidate our offices in Charlotte, North Carolina and Norwalk, Connecticut into our Camden headquarters. Closing these offices, although not an easy decision, is the right thing to do for our business and culture. Unifying the company in one headquarters will drive cost savings, while increasing our connectivity, collaboration and career opportunities for our people, leading to even stronger performance. The cost savings will be reinvested in the business and are included in our plan to increase margins in the Snacks division.

I'm pleased to share that the Snacks leadership team has committed to relocate to Camden. We hope that all our colleagues in Norwalk and Charlotte will join us in Camden, but we recognize that some will not.

Finally, before turning it over to Mick, who will review our second quarter results in more detail, I want to introduce Carrie Anderson, our new Chief Financial Officer, who joins us on the call today and will review our outlook for the second half of the fiscal year. Carrie is a seasoned leader with a strong background in complex business models across a wide range of industries. She has experience in multi-division operating models and has extensive experience in manufacturing and supply chain-driven industries, which are all very relevant to this role.

I'm confident Carrie will be a fantastic partner and will build upon the momentum we've established, while continuing to drive our finance team to best-in-class capabilities and performance. She's definitely hit the ground running.

I also want to thank Mick for his partnership and his role as CFO. Under his leadership, we've made significant progress in increasing the capabilities of the finance team and improving the company's financial performance. As the President of our Meals & Beverages division, Mick brings his strategic, financial and high commercial acumen to the role. I'm confident, he'll continue to advance our growth agenda.

With that, I'll turn it over to Mick.

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## Mick J. Beekhuizen

*Executive Vice President & President-Meals & Beverages, Campbell Soup Co.*

Thanks, Mark, and good morning, everyone. We are pleased with our strong second quarter fiscal 2023 results, reflecting double-digit growth versus prior year across all three key metrics, net sales, adjusted EBIT and adjusted EPS. These results were consistent with our expectations and reflect inflation-driven pricing and supply chain productivity improvements to offset inflation pressures and increased marketing investments to support our brands.

Second quarter organic net sales increased 13%. Top line growth this quarter was lifted by favorable net price realization, partially offset by a slight volume and mix headwind. Price elasticities remain well below historical levels, illustrating the underlying strength of our brands. Second quarter net sales outpaced 10% dollar consumption growth in measured channels, due in large part to the continued recovery of our foodservice business.

Our ability to mitigate continued cost inflation through a combination of levers led to a slight increase of our adjusted gross profit margin. Simultaneously, we increased support of our brands. And despite higher adjusted other expenses as a percentage of net sales versus prior year, adjusted EBIT margin increased by 20 basis points to 14.6%. On a dollar basis, adjusted EBIT increased 14% versus prior year.

Adjusted EPS increased by \$0.11, or 16%, versus prior-year quarter. Our cash generation remains strong, with cash flow from operations of \$732 million through the first half. In line with our commitment to return value to shareholders, year-to-date, we have returned over \$290 million. Organic net sales increased 13%, driven by 14 points of favorable inflation-driven net price realization. This was partially offset by a 2-point volume and mix headwind, which reflects increased elasticities, though, they remain well below historical levels.

Turning to slide 21, our second quarter adjusted gross profit margin increased 30 basis points from 30.4% last year to 30.7% this year. Favorable net price realization drove 1,020 basis point benefit due to the impact of our pricing actions, which only partially offset the impact of inflation and other supply chain costs in the quarter. Inflation and higher other supply chain costs had a negative impact of 1,140 basis points, with much of the impact driven by continued cost inflation.

That said, our supply chain productivity program drove a 280-basis-point benefit to our adjusted gross profit margin, partially offsetting these inflationary headwinds. Unfavorable volume/mix had a negative impact of 130 basis points in the current quarter.

The next page highlights the various initiatives we have deployed to mitigate core inflation, which on a rate basis, was approximately 14% in the second quarter versus 9% in the second quarter of fiscal 2022. Our actions include targeted pricing and trade optimization.

For the second quarter, net pricing was 14% and reflected the impact of waves two and three pricing. As we move into the second half, only waves three and four will benefit our year-over-year comparisons with wave four having a lesser impact than wave two. Wave four pricing, which relative to prior rounds, was much more selective in nature, has been fully implemented and was in place at the beginning of the third quarter.

In addition, we continue to deploy a range of other levers, including supply chain productivity improvements and cost savings initiatives as well as a continued focus on discretionary spending across the organization. For the second half of the fiscal year, we have the vast majority of our raw materials covered and continue to closely monitor the overall commodity markets.

Moving on to other operating items, marketing and selling expenses increased \$20 million, or 10% in the quarter on a year-over-year basis. This increase was largely driven by higher advertising and consumer promotion expense, or A&C, which increased by 17% versus the moderated levels in the prior year, and higher selling expenses, partially offset by increased benefits from cost-saving initiatives. Overall, our marketing and selling expenses represented approximately 8.7% of net sales.

Adjusted administrative expenses increased by \$13 million, or 9%, to \$157 million due to higher general administrative costs and inflation, higher benefit-related costs and higher incentive compensation, partially offset by lower expenses related to the settlement of certain legal claims. As a percentage of net sales, adjusted administrative expenses were 6.3%, a 20-basis-point decrease compared to last year.

On slide 24, we are providing an adjusted EBIT bridge to summarize the key drivers of performance this quarter. Adjusted EBIT increased 14% in the quarter, primarily driven by the \$92 million improvement in adjusted gross profit. Despite marketing and selling expenses increasing \$20 million versus the prior year, it was slightly lower as a percentage of net sales versus the prior year and therefore had positive impact to our adjusted EBIT margin of 20 basis points.

Similarly, adjusted administrative and R&D expenses were \$178 million, an increase of 8% over prior year and contributed 30 basis points to our adjusted EBIT margin. Adjusted other expenses of \$6 million compared to adjusted other income of \$9 million in the prior year had a negative adjusted EBIT margin impact of 60 basis points. This \$15 million headwind is largely due to a reduction in pension and postretirement benefit income compared to prior year. Overall, our adjusted EBIT margin increased 20 basis points to 14.6% in the quarter.

The following chart breaks down our 16% increase in adjusted EPS growth between operating performance and below-the-line items, and \$0.11 positive impact from higher adjusted EBIT was only slightly offset by a \$0.01 impact of a higher adjusted effective tax rate as our net interest expense was relatively flat year-over-year. All in, adjusted EPS of \$0.80 was 16% or \$0.11 per share higher than prior year.

Turning to the segments, in Meals & Beverages, we delivered another strong quarter with reported net sales growth of 10%. Organic net sales increased 11% versus the prior year, primarily due to increase in US retail

products, including US soup, Prego pasta sauces and Pace Mexican sauces as well as gains in foodservice. Favorable net price realization was partially offset by modest volume and mix declines. Sales of US soup increased 7%, primarily due to sales increases in ready-to-serve soups and condensed soups.

Within our Meals & Beverages division, second quarter operating earnings increased 17%, primarily due to higher gross profit, partially offset by higher marketing and selling expenses. Gross profit margin increased slightly due to the impact of favorable net price realization and supply chain productivity improvements, partially offset by higher cost inflation and other supply chain costs and unfavorable volume and mix. Overall, our second quarter operating margin in our Meals & Beverages division increased by 100 basis points year-over-year to 17.7%.

Within Snacks, net sales, both reported and organic, increased 15%, driven by sales of power brands, which were up 20% and reflected favorable net price realization and volume increases, lapping significant supply constraints in the prior year. Segment sales growth was driven by increases in cookies and crackers, primarily Goldfish crackers and Pepperidge Farm cookies; and in salty snacks, primarily Snyder's of Hanover pretzels, Snack Factory pretzel crisps and Kettle Brand potato chips.

Segment operating earnings in the quarter increased 24%, primarily due to higher gross profit, partially offset by higher marketing and selling expenses. Gross profit margin increased due to favorable net price realization and supply chain productivity improvements, partially offset higher cost inflation and other supply chain costs. Overall, within our Snacks division, second quarter operating margin increased year-over-year by 90 basis points to 13.9%.

I'll now turn to our cash flow and liquidity. Fiscal 2023 cash flow from operations decreased from \$766 million in the prior year to \$732 million, primarily due to changes in working capital, partially offset by higher cash earnings. Our year-to-date cash outflows from investing activities were reflective of the cash outlay for capital expenditures of \$155 million, which was an increase from \$129 million in the previous year. We continue to forecast full year capital expenditures of \$325 million for fiscal 2023.

Our year-to-date cash outflows from financing activities were \$525 million, including \$226 million of dividends paid and \$66 million of share repurchases. At the end of the second quarter, we had approximately \$375 million remaining under the current \$500 million strategic share repurchase program and approximately \$106 million remaining under our \$250 million anti-dilutive share repurchase program. We ended the quarter with cash and cash equivalents of \$158 million.

As we close out my last quarter as CFO, I would like to thank everyone for the support throughout my tenure as CFO at Campbell. I look forward to working closely with Carrie in my new role.

And with that, I'll hand it over to Carrie to talk through our updated full year guidance.

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## Carrie L. Anderson

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

Thank you, Mick, and good morning, everyone. I'm happy to be a part of the Campbell's team, and I look forward to contributing to our future success. As Mick mentioned, I will review our fiscal 2023 outlook.

Turning to slide 30, we have updated our guidance, reflecting our confidence in our full year plan. Net sales growth for fiscal 2023 is now expected to be in a range of plus 8.5% to plus 10%, up from our prior guidance of 7% to 9%.

We have also raised the midpoint of our adjusted EBIT and adjusted EPS guidance for the full year. We now expect adjusted EBIT growth of plus 4.5% to plus 6.5% and adjusted EPS growth of plus 3.5% to plus 5% compared to the prior year, resulting in fiscal 2023 adjusted EPS of \$2.95 to \$3.

Our higher expectation for revenue reflects the strength of our brands with price elasticities remaining favorable to historical norms as well as stronger supply chain execution and sustained marketing investment to fuel demand and support innovation.

As we think about the second half, our plans contemplate several evolving drivers from the first half. Specifically, we will begin to lap our most significant year-ago pricing. We have been successful in executing our wave four pricing, but the net of this will result in lower overall growth rates than the first half.

As it relates to profit and EPS, our revised guidance remains consistent with our prior plans. We will continue to navigate expected inflation with pricing, albeit lower incremental pricing levels in the second half as compared to the first half and with continued productivity. We will also continue to invest in our business to drive demand and profitably defend share.

Additionally, in the second half, we'll see a headwind from lower pension income. Fiscal 2023 pension income is now expected to be lower by approximately \$45 million, or \$0.12 per share, compared to the prior year. This represents a headwind of approximately 3.5% to adjusted EBIT growth and approximately 4% to adjusted EPS growth for the full year, or an increase of 50 basis points, or \$10 million, from previous estimates as a result of interim remeasurements.

However, given the strength of our top line and the greater visibility in [indiscernible] (00:32:56) cost, we are confident in raising the midpoint of our adjusted EBIT and adjusted EPS guidance ranges. As we covered earlier, some of our inflation-driven pricing actions in the second half of fiscal 2022 will now lap in the second half of fiscal 2023.

With inflation still expected in the low teens for the full year, we are driving other margin-enhancing initiatives in addition to price. We've already delivered \$870 million of our multi-year cost savings program and remain on track to achieve \$1 billion by the end of fiscal 2025. For fiscal 2023, the total benefits of our cost savings initiatives and productivity improvements remain unchanged, with a slight update to the split of the two programs as you'll see on the slide.

As we look to the second half of the fiscal year, with our brand momentum, strength in supply and continued competition, we will continue to invest in our brands, such that for the full year, we expect marketing and selling expenses to be near the low end of our targeted 9% to 10% of net sales.

To summarize, we feel good about the momentum we've created thus far as well as our plans for the second half of the year, which translates into another raise in guidance for the full year. All in, our second quarter was aligned with our expectations. And for the full year, we remain confident in our strategy, our compelling portfolio of leading brands, our strength in supply chain capabilities and our team's focused execution.

I'd like to close by thanking our teams for a warm welcome. I'm excited to be part of Campbell's continued progress towards unlocking its full growth potential.

And 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.*

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Great. Thanks very much and welcome, Carrie. So, Mark, momentum in the business is clearly quite strong. My question is, with the magnitude of the upside in the quarter, why only raise the low end of the full year EBIT and EPS guidance by less than that? I guess, if you could walk us through some of the key puts and takes and more specifically, you mentioned some stepped-up investment behind a few of the key brands. Just trying to get a sense of how we think about this incremental spend. Is it spending back some of the upside to continue to strengthen the brand equities? Or are you seeing something in the market or with consumer behavior that is requiring more investment? Thanks so much.

**Mark A. Clouse**

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

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Yeah. Great. Thanks, Andrew. Good morning too. So, first, let me just start from the perspective of the full year. I don't know that we would see material difference in kind of how we view the full year. It is – it continues to be an extremely strong year on the back of really the strength of the brands, which certainly continued through Q2 and the continued really strong execution, both whether that reflects the mitigating efforts of inflation and/or our supply chain, which really just continues to make great strides and really thrilled to see that.

I also think that, as you think about the full year, though, we also now have some greater conviction to both the cost side, we have 93% of our cost basket essentially covered, and we now see the implementation of wave four pricing. So, that gives us a little bit more clarity or precision, if you will, in how we're managing or positioning the balance of the year.

Arguably, there would have been some upside. I think we're giving a bit of that back in the incremental pension income headwind that Carrie just talked about. I do think if you just take a second and you look at that particular factor, that's now \$45 million for the full year. It's about \$0.12 of EPS and about 50 bps of margin over the course of the year.

So, that's not insignificant for something that really has no relationship to the operational performance of the company. But nonetheless, that's providing a bit of that headwind or offset to where you might have expected to see some upside, but maybe easier to talk about it through the lens of Q2 in particular.

So, when we look at Q2, thrilled with the performance, I will say, we came in about 100 basis points on margin better than we expected, and that was really delivered in three areas. The first was on productivity. We did more of what we would have expected for the full year savings we got in Q2, and that's great.

I mean you're always happy to get the savings in the barn a little bit faster and supply chain, again, doing a great job. Not ready yet to say for the year, I see upside on productivity, but certainly good to have that in the bank already. So, I do expect that to be more of a timing or phasing element.

And then on investments, both from a promotion standpoint as well as marketing, we were a bit more efficient in the second quarter than we expected. And I guess, what I would say about that is, I'm not yet ready to say that that is incremental opportunity for the year.

I think with half the year to still play, having a little bit of flexibility, as we think about the year is not a bad place to be. I feel great about where we are. I don't think there's anything that is radically different in the back half that we're adjusting spending to address.

But I think in the current moment we're in, it's pragmatic to really try to manage this algorithm I talked about in my prepared remarks of making sure that the growth in demand is balanced with managing the margin.

Again, let me be clear, this is not about chasing volume or chasing share in a non-profitable way, but it is about making sure that we're managing this business to remain healthy and sustain the performance going forward.

And that means making sure that we get the right levels of investment in place. So, nothing dramatically different, but arguably a little bit of favorability and timing in the second quarter that would move – that would, in theory, move into the back half.

Just a couple of maybe other qualifying elements on the first half, second half as I would imagine that could be a question as well. But if you remember, when we set this plan up, we always talked a bit about the dramatic difference first half to second half of the comps a year ago, where in the back half of last year, we had significant upside on EBIT growth, whereas in the first half, it was down versus a year ago. So, that tougher comp is one element.

Also less incremental pricing, although successful in getting wave four and the net of all of that will be less incremental pricing, which will have an impact on the growth rates as we think about the second half and then, of course, overlay with it the pension of 50 basis points and some of the incremental investment. And that's why you get a slightly different profile in the second half versus the first half.

But the underlying fundamentals on the business and the structure of the business, very much in line with what we expected, arguably, a little better with a little more pension. But at the end of the day, we really feel terrific about where we are. This is kind of exactly where we would hope to be relative to how we're watching in-market performance move. So, I don't know if that's helpful, Andrew, but I hope that gives you good lay of the land.

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**Andrew Lazar**

*Analyst, Barclays Capital, Inc.*

It does. Thanks so much.



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

**Kenneth Goldman**

*Analyst, JPMorgan Securities LLC*

Good morning. And Carrie, I look forward to working with you. Congratulations. Mark, you said you're taking actions to remain competitive in soup. Just quickly curious if it's as simple as promoting back more to combat private label if there's other elements of that, too?



And then my broader question, I do appreciate you had helpful commentary about how condensed losses are largely in the tail, overall, you're pleased with the performance. But I'm really curious for your broader point of view, given that you run a number of categories and see a lot of different things in the space. Can an argument be made in your opinion that this dynamic in which branded players deal back prices to narrow gaps, that that's going to spread a little bit more across food at home ahead? I'm really just curious on whether you think this is kind of a canary in the coal mine or just a one-off in a single category that has an unusually strong store brand presence? Hope that makes sense.

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**Mark A. Clouse**

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

A

Yeah, I get it. So, really, let me try to pull that apart into the kind of the, I think, the two questions that you're really asking. So, first, on soup, I would say, I think our approach has been probably more strategic than simply deal a few things back, or do you just try to manage price gaps.

So, I think there's a more longer-term and strategic play on what we're doing with soup that might be helpful to kind of hear how we're thinking about it. But in essence, I think on soup right now, our strategy is really three things. The first one is to win – kind of we describe it as winning the fights that matter most, right? So, when you think about areas like our condensed icons, which I talked about, up a full share point, or winning on Chunky within the ready-to-serve soup area, where Chunky was up 8% in the quarter, almost 0.5 share point. Just as a sidebar, Chunky now has been up – over the last three years is up 35% as a brand and has grown over 2.5 share points within the world of soup.

And that is absolutely paramount to our strategy of really winning that lunchtime occasion with a superior product that Chunky is living into and doing it among younger consumers, which is, again, where Chunky has been incredibly successful.

I think the third kind of strategic fight is on Pacific, right? We now have supply back in place. This, again, we see as a highly differentiated brand, a leader in organic in the soup category, and that business was up 17% and grew share by 0.3 point in the quarter. And so, as I think of those three areas, those are really important competitive battles that we see critical to winning. And so far, we feel very good about how we're performing in those spaces.

The second strategy is really around driving – continuing to drive that long-term relevance of the category. And that's really reflected heavily in both the versatility and the value that's driven within soup. And so, cooking is a good proxy that we use for that. And the trends on cooking in home just continue to be incredibly powerful.

Over 80% of meals are being prepared in home, that's about 400 basis points higher than it was in a pre-COVID world. I will say what's different than COVID now though is that the focus on those in-home meals revolve around both value and time to prepare. So, the magic numbers on dinner are 20 minutes and the magic number on lunch is 10 minutes on speed, and that's where our categories really land well, as well as being a great value.

And so, when I look at our cooking condensed business, right, as a subset where we're growing share and outperforming the category, that's exactly we want to see, along with, of course, the strength in Chunky at lunchtime that I already talked about.

So, remember, at the end of the day, we're over half of this category. So, if the health of the category remains robust, we're going to win in the long run, and that's exactly what we're trying to do in that second strategic area.

And then the third area is really kind of holding the line on the balance, right? So, these are not unimportant parts of our portfolio, but they definitely play a supporting role. And arguably, where we've had to make some trade-offs, has been in this area.

Now, I just will say, when you describe it as being pleased, I don't know that I would describe myself as pleased. Look, any time we're losing share in the category, I'm not happy about that. And so, I do think, as we think about the balance of the year, we want to make sure we continue to get that algorithm right on the balance of our portfolio, not overspending, but making sure that we stay competitive.

That's things like in the condensed world, sub-brands like Healthy Request or our Kids line or broth, right, more broadly. And so, again, we're going to really focus on value, continue to support those businesses appropriately to really kind of keep this algorithm in track with where we want to be.

So, that hopefully gives you a little better lay of the land of where we are in soup and why we feel good about the areas we're focused on, while still being very vigilant on the areas that may not be as robust.

I think to your bigger question of – so, therefore, do we imagine the beginning of more substantial shifts in the support on the business. I honestly think that when I look – and I can't speak, obviously, always been dangerous speaking on behalf of the industry. But from a Campbell standpoint, I think what we're doing is we're being very pragmatic and thoughtful, right?

This is about understanding the balance between ensuring that we don't erode profitability in our businesses that we're going to regret in the long term, while also recognizing that it's paramount that we remain competitive and driving value. And so, although, I do think some categories may require a different level of support to achieve that goal, at the end of the day, when I look at our profile as a business, I think it's very healthy, right?

I mean this – I'll hope that I get a question on Snacks. I'd love to talk about that [indiscernible] (00:47:30). But that's a business that is just literally firing on all cylinders. And yes, there's a component of reinvestment that's happening, but it's happening in support of really accelerating growth across the board.

So, no, I don't think this is some harbinger of bad things to come. I really think, as I've said all along, right, if you go back three quarters, I talked about the fact that the balancing act here or the winners in this moment are going to be the ones that get this balancing act right, where you don't overspend and erode profitability, while you don't get too greedy and not invest properly in your brands. And that's really what we're trying to balance right now. And I think Q2 is a great proof point of us, I think, doing that in a pretty compelling way.

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**Kenneth Goldman**

*Analyst, JPMorgan Securities LLC*

Got it. Thank you.



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

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**Peter T. Galbo**

*Analyst, BofA Securities, Inc.*

Hi, good morning, all. Thanks for taking the question.



**Mark A. Clouse**

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

Thanks, Peter.

A

**Peter T. Galbo**

*Analyst, BofA Securities, Inc.*

Mark, I guess maybe just two questions, one more a pointed question on kind of the guidance and then I'll grant your wish on Snacks. Just around the inflation guide for the year. I mean, I think you came in the first half at 16%. You're talking to low teens. So, if you can just talk about kind of how you see the cadence over the back half of the year on inflation?

Q

And then maybe just broader around Snacks. You did spend a good portion of the prepared remarks talking about both pricing and volume growth in the segment and particularly share gains in salty. Just if you can maybe speak to the sustainability of how you see that, particularly around salty snacks would be helpful. Thanks very much.

**Mark A. Clouse**

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

Yeah. Carrie, why don't you take the inflation question and then I'll hit the snacks one.

A

**Carrie L. Anderson**

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

Sure. We do expect core inflation to moderate through the year and consistent with my prepared remarks talking about low teens for the full year. So, you're right, the first half was about 16%. We did see some improvement as we went from Q1 to Q2 in a few categories that attenuated like flour, resins and meat and steel and even some of the transportation costs. As I think about the second half of the year, I would anticipate that that will move in that 10% to 11% range on inflation. So, for the year, again, you're talking about low teens.

A

**Mark A. Clouse**

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

Yeah. So, let me take the – thank you for asking about Snacks. Look, I think there's – you sensed it in our remarks and certainly in my desire to want to talk about it. I do think Q2, in many ways, is a somewhat of a pivotal moment in kind of the validation of the strategy on snacking for us as a company. And that's why I'm as happy or as positive with it as I am.

A

It was a quarter, where, essentially, we delivered every element that you'd want to deliver, right? So, top line was up 15%, in-market consumption up 17%, our power brands were growing at 20%. Those partner brands that have been [ph] plaguing us were (00:50:55) down to less than, I think, mid-single digits in the company or in the category from when their high was at 10%. And margin grew at the same time, really driven by productivity and cost savings as much as pricing did a fairly good job of covering inflation.

And that profile then resulted in us being the fastest-growing share player in cookie cracker and in salty among major branded players. And that's exactly where I think this portfolio should be, right? Growing top line, we also grew units and unit share on those businesses, and it was broad-based, right? This wasn't just one brand. If you go through the last couple of years, as we kind of got the ship right, we had some brands up, some down. It was never a period where you could really look across the portfolio and go, gosh, what can this thing do when everything is firing?

And this quarter was a great example. And even as you roll into the more recent Nielsen and IRI data, you see that momentum just continuing to go forward. And it really is a combination of great marketing support, the right innovation and then a supply chain that's stepping up to meet that growing and expanding demand. And that's exactly what we want working.

And again, each of the brands have kind of unique story, but Goldfish, up 22% in the quarter, up over 30% over the last three years, growing share, almost now \$1 billion brand and driven by a really smart strategy of expanding the appeal of the product between both families with kids and families with out of kids.

Our innovation is working extremely well. The limited time offer flavors has grabbed all the buzz that you'd want it to. And I think it's also maintaining the great value, right? When you think about the snacking world and kind of better-for-you snacking as you ask, right, Goldfish really does live in this unique permissible space of being a bit premium but also a bit better. And that's really a good description of our whole portfolio. And that's why I love it so much is because the differentiated nature of these brands, whether you're in salty or whether you're in bakery, just position us for the long term, I think, in a really great way.

And again, Kettle, cookies, Lance, even Late July, both of which have been brands that have been a little bit under the gun because of supply chain, were up 19% and 27%, respectively. Lance grew almost 3 share points and Late July grew over 4 share points. So, these are businesses that now we've got the firepower behind it.

Snack Factory, another kind of sleeping giant in the portfolio sitting in the deli growing 19% and grew 4 share points this quarter. I mean these are extraordinary numbers, and I'm hopeful that what it will begin to do is really solidify what we've been talking about, which is when we think about the world of snacking, we believe we've got an advantaged portfolio, and we're going to be an extremely formidable competitor as we go forward.

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**Peter T. Galbo**

*Analyst, BofA Securities, Inc.*

Great. Thanks, Mark.

Q

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**Operator:** Your next question comes from the line of Robert Moskow from Credit Suisse. Your line is open.

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**Robert Moskow**

*Analyst, Credit Suisse Securities (USA) LLC*

Hi, thank you. I was [ph] hoping for (00:54:39) two things.

Q

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**Mark A. Clouse**

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

Hi, Rob.

A

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**Robert Moskow**

*Analyst, Credit Suisse Securities (USA) LLC*

Hi, there. Can you quantify how much foodservice helped the company in terms of the growth rate and also, specifically, the Meals division? I use the Nielsen data here and your results today are much better than the Nielsen data, so good news there. And then secondly, on Snacks...

Q

**Mark A. Clouse**

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

Yeah.

A

**Robert Moskow**

*Analyst, Credit Suisse Securities (USA) LLC*

...your slide that shows the market share gains versus year ago, last year, you had significant market share losses from supply chain issues. Can you give us – can you quantify what your market share is in salty snacks, for example, on a two-year basis? Are you still below where you were two years ago? And maybe talk about what the upside there is and how you can chase after it?

Q

**Mark A. Clouse**

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

Yeah. Great question, Rob. Let me take the first one first. So, you're right, foodservice had another very strong quarter. It now represents about 10% of our Meals & Beverage business, and it was up 34%. So, when you think about the 5-point delta of net sales being up 11% and consumption being up 6%, there's a good chunk – actually, majority of that is coming from foodservice.

A

Although, I will say, also in that number, is some very strong performance from Canada. Canada has been a business that in the world of supply chain was suffering a bit with foodservice as we were prioritizing different parts of the business. Now that we're back into full supply, you see a much healthier Canadian business. That team has done an extraordinary job navigating a difficult market, but really bringing back the brands and growing the business.

In fact, Canada was up 16% in the quarter. And that's not insignificant either. That's probably just under – between 7% or 8% of the Meals & Beverage business. So, yet another contributor to that difference between 11% and 6%. So, it is great. And look, those are trends, as we've said, we would expect to continue to be tailwinds probably or will not be at the magnitude that we've seen in the last couple of quarters but continuing to be a positive influence.

Here's an interesting little tidbit on soup as well. As you might imagine, a big part of our foodservice business is soup. And it's interesting as we start to look at the entire world of soup. But if you look at our underlying growth on soup in the second quarter, it would have added 2 points of growth to the total franchise of soup based on the performance of foodservice. So, those are all good, I think, supporting elements within our Meals & Beverage business. And like I said, I think those are things that will continue to help us as we move forward.

As far as the Snacks trends, what I would tell you, Rob, is it's a bit of a mixed bag, right? So, there – you're absolutely right. There were places where we were struggling a year ago on certain parts of the business and market share primarily as it related to supply chain. So, certainly, Late July, Lance, there were a few other places, but we've come back at an equitable level of strength. I think what we'll do is I can give you the kind of blow by blow by brand but we'll do that – we can do that after the call.

But I think the net of it is, if you take kind of where we are holistically from where we started the journey, we feel really good about the share gains – cumulative share gains that we've had over time, so, although, yes, we would expect strong rebound. But I will say in snacking, part of what you always worry about is it's such a dynamic aisle. And with DSD, if you're not there, someone else is. And so, when you come back into the section, I think we all hold our breath a little bit to make sure that the consumers immediately come back. And the great news is on

those two brands in particular, they absolutely came back. And that just, again, I think, gives us a little confidence in it.

So, I think the net of all of it is, yes, certainly, a tailwind on supply chain. But overall, trends on the business and the strength of what we're seeing from a marketing and innovation side are giving us more confidence of this being more sustainable over time. I mean, I'm not telling you that we're going to see 15% growth in the perpetuity, but I do think that ability to grow above the category, which is really what we aspire to do, I continue to feel more confident than ever that we can do that.

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**Robert Moskow**

*Analyst, Credit Suisse Securities (USA) LLC*



Thank you.

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**Operator:** Your next question comes from the line...

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**Mark A. Clouse**

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

Okay.

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**Rebecca Gardy**

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

Sorry. I think we're out of time right now, really appreciate everyone's questions and participation on the call.

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**Mark A. Clouse**

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

Yeah. Thanks, everybody. We'll talk to many of you later. If you have questions, please follow up. But thank you.

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**Rebecca Gardy**

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

Thank you so much.

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**Operator:** This concludes today's conference call. Thank you for your participation. You may now disconnect.

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