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CPB - Q1 2014 Campbell Soup Company Earnings Conference Call

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OVERVIEW:

CPB reported 1Q14 net sales from continuing operations of $2.2b, adjusted net earnings from continuing operations of $209m and adjusted EPS from continuing operations of $0.66. Expects FY14 adjusted continuing operations sales growth to be 4-5% and adjusted EPS to be $2.53-2.58.

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CORPORATE PARTICIPANTS

Jennifer Driscoll *Campbell Soup Company - VP IR*

Denise Morrison *Campbell Soup Company - President, CEO*

Craig Owens *Campbell Soup Company - SVP, CFO, Chief Adminstrative Officer*

Anthony DiSilvestro *Campbell Soup Company - SVP Finance*

CONFERENCE CALL PARTICIPANTS

Chris Growe *Stifel Nicolaus - Analyst*

Alexia Howard *Sanford C. Bernstein & Co. - Analyst*

Jason English *Goldman Sachs - Analyst*

Thilo Wrede *Jefferies & Co. - Analyst*

Ken Goldman *JPMorgan - Analyst*

David Driscoll *Citigroup - Analyst*

Robert Moskow *Credit Suisse - Analyst*

John Baumgartner *Wells Fargo Securities - Analyst*

Bryan Spillane *BofA Merrill Lynch - Analyst*

Andrew Lazar *Barclays Capital - Analyst*

Diane Geissler *CLSA - Analyst*

Akshay Jagdale *KeyBanc Capital Markets - Analyst*

Greg Hessler *BofA Merrill Lynch - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Campbell Soup first-quarter 2014 earnings call. (Operator Instructions) As a reminder, this conference call is being recorded.

I would now like to introduce your host for today's conference, Jennifer Driscoll, Vice President of Investor Relations. Please go ahead.

Jennifer Driscoll - *Campbell Soup Company - VP IR*

Thanks, Kate. Good morning, everyone. Welcome to the first-quarter earnings call and webcast for Campbell Soup Company.

With me here in New Jersey today are Denise Morrison, President and CEO; Craig Owens, Senior Vice President, CFO, and Chief Administrative Officer; Anthony DiSilvestro, Senior Vice President of Finance; and Anna Choi, Senior Manager of Investor Relations.

I am going to comment first on items in the quarter, including impacts from our European Simple Meals business, which we sold on October 28, the first day of our second quarter. Denise will follow me with her perspective on our first-quarter results, focusing on the main profit drivers year-over-year and expectations for fiscal 2014. Craig will wrap it up with a more detailed look at the financial and segment results for the first quarter and our adjusted expectations for fiscal 2014. After that we will take your questions.

As usual, we have created slides to accompany our earnings presentation. You will find the slides posted on our website this morning at investor. CampbellSoupCompany.com and on our Investor Relations app which is available through Google or Apple.

Please keep in mind that our call is open to members of the media who are participating in listen-only mode. Also keep in mind, our presentation today includes forward-looking statements which reflect the Company's current expectations about future plans and performance. These forward-looking statements rely on a number of assumptions and estimates which could be inaccurate and are subject to inherent risks. Please refer to slide 3 in the presentation or to the Company's most recent Form 10-K and subsequent SEC filings for a list of the factors that could cause our actual results to vary materially from those anticipated in our forward-looking statements.

We have been reporting Europe's operating results in discontinued operations. The sale resulted in changes in continuing operations in Q1, with Q2 impacts being covered later in our remarks today. In the first quarter of fiscal 2014, the Company recorded an unrealized loss of $9 million, $6 million after-tax, or $0.02 per share, on foreign exchange forward contracts used to hedge the proceeds from the sale of the European Simple Meals business. The loss is included in other expense.

In addition, the Company recorded tax expense of $7 million, $0.02 per share, associated with the sale of the business. Both were recognized in continuing operations.

Separate from Europe we recorded a pretax restructuring charge of $20 million, which is $13 million after-tax, or $0.04 per share, in continuing operations, associated with initiatives to streamline our salaried workforce in North America and in the Asia-Pacific region. We also recorded a pretax restructuring charge of $1 million and restructuring-related costs of $2 million in cost of products sold related to the fiscal 2013 previously announced initiative.

Last year in Q1 we recorded a restructuring charge of $20 million pretax and $20 million pretax of restructuring-related charges related to supply chain initiatives and $10 million in the Bolthouse transaction costs. The cost of our recent Plum recall was not adjusted out.

Since our presentation includes several non-GAAP measures, as defined by SEC rules, we have provided a reconciliation of the measures to the most directly comparable GAAP measures as an appendix to the slides accompanying our presentation. These slides, along with our earnings release and selected quarterly financials, also can be found on our website, accessible online or on your mobile device with the Campbell IR app.

This earnings call is available live on the Web and will be saved later as an archived audiocast. You can find it at investor. CampbellSoupCompany.com under News and Events; just click on Recent Webcasts & Presentations.

And with that, let me turn it over to Denise.

Denise Morrison - *Campbell Soup Company - President, CEO*

Thank you, Jennifer, and good morning, everyone. I want to start by saying that I am disappointed with our first-quarter results, which failed to meet our expectations and yours. I own this, and so does our entire management team. But we are not discouraged, because we understand what happened, we know what we have to do, and we are determined to improve our performance over the next three quarters.

Based on our first-quarter sales and profit performance versus our expectations, we are lowering our full-year guidance for fiscal 2014 by 1 point at each line. From continuing operations we now expect growth of 4% to 5% in net sales, 4% to 6% in adjusted EBIT, and 2% to 4% in adjusted EPS, with a range of $2.53 to $2.58 per share. This guidance reflects our expectation that Campbell will deliver considerably stronger results in the balance of the year.

This morning I will review the factors that had a significant impact on our first-quarter results and explain how we expect to improve our performance for the remainder of the year. I will also review strategic steps that we have taken to continue to reshape Campbell and our future growth trajectory.

The key factors in the quarter were: first, movements in inventory levels by US retailers and program timing; second, weakness in our core business trends; third, our decision to frontload marketing spend to support the growth of new products; and finally, our voluntary recall of a range of Plum Organic products. Although it is not an exact science and these are estimates, I want to give you a sense of the relative impact these factors had on our first-quarter adjusted EBIT, which was down 20% versus prior-year.

Movements in retailer inventory levels and program timing drove approximately 6 points of the EBIT decline. Declines in our core business trends reduced EBIT by approximately 6 points.

Increased advertising and consumer promotion accounted for about 4 points. And the Plum recall accounted for nearly 4 points of the decline.

Movements in inventory levels and program timing drove more than half of our declined in organic sales. The greatest impact was in U.S. Soup, where movements in retailer inventory levels negatively impacted first-quarter sales by approximately 4%, or two-thirds of the decline versus prior-year.

As we said in our last earnings call, we entered the first quarter with retailer inventory above year-ago levels, particularly in Soup. What we didn't expect was that some retailers also chose to reduce the average amount of inventory on hand versus the prior year, adjusting to a weak consumer environment.

This had a negative unplanned impact on our sales, and we ended the quarter with retailer inventory levels below year-ago. In quarter 2, we are seeing more positive inventory movements.

Significant shifts in our program timing and execution also pressured our first-quarter results, especially in U.S. Soup. As we discussed with you in September, we expected this year's late Thanksgiving holiday to put pressure on our first-quarter results.

In fact, many large US customers placed their orders later than the prior year. This required us to hold off on shipping holiday items until after Halloween. These items include Campbell condensed soups, gravy, Swanson broth, and Pepperidge Farm stuffing.

The upside is that we expect the holiday timing to have a positive impact on sales in the second quarter, as it will have more Thanksgiving shipments to customers than last year's quarter. We are seeing evidence of that right now, and I am certainly encouraged by the strong acceleration in Soup and Pepperidge Farm shipments and by the merchandising we have seen so far in November.

In the first quarter, U.S. Soup was lapping strong promotional activity in the year-earlier period when we partnered with key customers on major promotions of Campbell condensed soup that drove volume during the back-to-school period. This year our Soup promotion is more heavily weighted to the second and third quarters, which we will anticipate will be more effective at the height of the Soup season.

Some of our first-quarter promotions were scaled back or not repeated. These actions impacted condensed and ready-to-serve consumption and sales in the first quarter. Although first-quarter Soup consumption declined, we grew share in the quarter.

Looking ahead, we expect Soup consumption trends to pick up in the balance of the year as consumers respond to effective marketing and promotions, taste improvements, and new products as we enter the winter months. In fact, our total U.S. Soup gross sales are up 8% month-to-date in November from the prior year.

To help drive renewed growth in both condensed and ready-to-serve soup consumption and build on our momentum in broth we have planned competitive advertising levels in the coming quarters to get Soup sales back on track. We expect our new Campbell's Homestyle Soup to be a growth driver this year, and we are accelerating innovation by pushing up the launch of eight new soups that were originally planned for the end of the fiscal year. These new soups will now be launched in the second and third quarters, and they include new varieties of Campbell's Chunky and Healthy Request Soups and our first Hispanic-inspired cooking soups.

A second factor impacting our profit performance was our decision to frontload marketing investments in the first quarter to support new products. Specifically, our advertising and consumer promotion expense in the first quarter increased 14% from the year-earlier period.

We supported new product launches in Soup and Simple Meals and made investments in Bolthouse Farms to drive better brand awareness and expand its leadership position in packaged fresh foods. We made strategic choices to launch new products while maintaining competitive levels of advertising in the core.

This included supporting Campbell's Homestyle Soup, Slow Cooker Sauces and Skillet Sauces with strong national advertising campaigns that encompassed digital, social, and TV. Although it is still early days, I am encouraged by the velocity of Campbell's Homestyle soup and dinner sauces in response to our advertising. But the benefits of advertising tend to build over time, and we expect new product sales will continue to accelerate as the year progresses.

As we reported today, we continue to face challenges in North America Foodservice and U.S. Beverages. This is the last quarter where Foodservice is cycling the loss of a major customer, and we expect better comps going forward.

Foodservice performed as expected in the quarter. However, U.S. Beverages performed below our expectations.

Our V8 brand continues to be under pressure from category weakness in shelfstable juices and competition from the proliferation of specialty beverages and packaged fresh juices. As we have said before, we are implementing a turnaround plan to stem the decline and strengthen U.S. Beverages in the long run, but we don't expect it to be a growth driver this year. We are focused on reducing cost and driving innovation such as V8 V-Fusion Refreshers and V8 V-Fusion + Energy.

Our first-quarter results also reflected the impact of a recall on a range of Plum Organic pouch products. We initiated this recall after discovering a manufacturing defect that may cause spoilage in some pouches.

As Craig will discuss in greater detail, the cost of this recall had a significant negative impact on our first-quarter EBIT. Our priority is to continue to build consumer and customer trust in this wonderful brand.

Looking briefly at Global Baking and Snacking, I am encouraged by the solid performance of Pepperidge Farm in the quarter and by our progress in reshaping and expanding our international business, including our acquisition of Kelsen Group and our growth in emerging markets. Pepperidge Farm grew sales of Goldfish Crackers and fresh bakery and rolled out exciting new products.

Going forward, we are supporting the national rollout of Goldfish Puffs with a television and digital campaign, and in Q2 we are launching Goldfish Mac & Cheese nationally. In addition, Pepperidge Farm expects a boost from Thanksgiving shipments in the second quarter. Overall, we expect this business to deliver continued solid growth this year.

Turning to our international biscuits portfolio, the integration of Kelsen, which has given us a baked snacks platform in China, Hong Kong, and other international markets, is on track. We are readying Kelsen brands for the important holiday season.

In emerging markets we expect to deliver dynamic growth in Arnott's Biscuits in Indonesia this year. We are doing some heavy lifting to address our challenges in Australia, where we are focused on reducing cost and reinvigorating growth in Arnott's.

We have strengthened the leadership and are reorganizing the team. Our new President of Asia-Pacific, Umit Subasi, is now on board. Umit has extensive experience in turning around businesses and establishing new operations in emerging economies.

Now I will discuss several important steps that we have taken as we continue to reshape Campbell and redefine our future growth trajectory. In the first quarter, we concluded our negotiations to sell our European simple meals business for EUR400 million. This transaction, which closed in the second quarter, enables us to focus our investments and resources on faster growing businesses and markets and on brands that we believe we can grow around the world.

We now have 10 powerful brands with sales of more than $100 million each, led by our flagship Campbell brand at $2.1 billion. With the acquisitions of Bolthouse Farms, Plum Organics, and Kelsen we added a trio of growth engines with combined sales of more than $1 billion to diversify our portfolio. We will continue to look for smart external development opportunities that create value.

The second step relates to our ongoing focus on reducing SG&A expense and total delivered cost as a strategic imperative. Campbell is driving productivity and rightsizing our global workforce to fund sustainable growth in a challenging consumer and economic environment.

Over the past two years we exited four plants and streamlined our Campbell North America operations in order to optimize our supply chain and increase efficiency. These actions have resulted in annualized cost savings of approximately $40 million.

In our first quarter of this fiscal year, we continued our progress by implementing further initiatives that are expected to deliver annualized cost savings of approximately $40 million. Importantly, we will reinvest some of these incremental cost savings in brand building and innovation.

Based on the Company's solid performance last year and our outlook for this year, Campbell Board of Directors increased the quarterly dividend during the first quarter by 7.6%. With this increase, Campbell's shareholders will receive a payout of almost $1.25 per share on an annualized basis. This dividend increase reflects the Company's strong cash flow, continued confidence in our strategic plan, and our firm commitment to enhance shareholder value.

So, in closing, we are off to a slow start to the year and face a tougher road than we anticipated. But we know what we have to do to strengthen our performance over the balance of the year, and the second quarter is off to a solid start.

In summary, I am disappointed but not discouraged. I firmly believe that we are taking the right steps to drive sustainable, profitable net sales growth and I am determined to do so. Now I will turn the call over to Craig Owens for a full review of our segment results, and then we will get to your questions.

Craig Owens - *Campbell Soup Company - SVP, CFO, Chief Adminstrative Officer*

Thanks, Denise, and good morning, everyone. Well, as Denise said, we are disappointed in the results that we are reporting. Today we want to be sure that we are providing you with a clear understanding of the elements of the first-quarter results as well as indicators of the opportunity that we see in the balance of the year.

I will spend a few minutes discussing the first quarter and segment highlights, followed by comments on our full-year sales and earnings guidance. As Jennifer mentioned, my discussion will exclude the impact of acquisition transaction cost in the prior year, restructuring programs in both the current and the prior years, and a loss on foreign exchange forward contracts and a tax expense related to the sale of our European business but recorded in continuing operations in the first quarter.

On October 28, after the close of the first quarter, the Company completed the divestiture of the European simple meals business. That business is reported in discontinued operations in the first quarter.

For the quarter, we reported net sales from continuing operations of $2.2 billion, a 2% decrease from the prior year. These results include a 4-point contribution from acquisitions, which consist of Plum Organics; Kelsen, which was acquired on August 8; and one additional week of the results of Bolthouse Farms, which was acquired one week into the quarter last year.

Excluding acquisitions and the negative impact of currency, organic net sales decreased by 4%, with declines across all segments except for Global Baking and Snacking, which was comparable to prior year. The organic sales performance was negatively impacted by movements in retailer inventory levels across several of our businesses.

Adjusted EBIT decreased 20% to $337 million, reflecting lower sales, increased advertising investment, expenses related to the Plum product recall, and a lower gross margin percentage. Adjusted earnings per share were $0.66, a 21% decrease versus the prior year, driven by the EBIT decline.

The next slide shows the composition of the 2% sales decline. The organic sales decrease of 4 points reflects 4 points of unfavorable volume mix; 1 point of increased promotional spending; which was offset by 1 point of pricing.

Unfavorable currency had a 1-point impact due to the Australian and Canadian dollars weakening against the US dollar. You will note that the detail does not add to the total due to rounding.

The unfavorable volume mix is driven by two of our US segments, U.S. Simple Meals and U.S. Beverages. The pricing gains were primarily related to our list price increase on condensed soup in the US and price increases across our Baking and Snacking segment.

These increases were partially offset by pricing declines in Mexico based on our new distribution business model. The promotional spending variance was primarily related to higher rates of spending in U.S. Simple Meals and Global Baking and Snacking.

Our adjusted gross margin percentage declined by 220 basis points to 36%. The decline was primarily attributable to the impact of Kelsen and Plum.

The combination of purchase accounting inventory step-up for Kelsen and the Plum recall had a negative impact of 1 full point. The ongoing impact on gross margin from the addition of the lower-margin Kelsen and Plum businesses is about 40 basis points.

The balance of the margin reduction was largely due to negative mix. The inflation rate in cost of goods sold was about 3% for the quarter, entirely offset by productivity savings.

Marketing and selling expense increased $25 million to $261 million. The increase was primarily driven by higher advertising to support new product launches, including Campbell's Homestyle Soups and Campbell's dinner sauce products, as well as new advertising to support the Bolthouse brands. The addition of Kelsen and Plum Organics also contributed to the increase.

Administrative expense decreased $7 million to $148 million, primarily due to lower compensation and benefit cost, including pension expense. Acquisitions added approximately $5 million.

For the quarter, net interest expense decreased $3 million to $30 million. The decrease was due to lower average interest rates on our total debt portfolio, partly offset by higher levels of debt to fund the Kelsen and Plum acquisitions.

The adjusted tax rate for the quarter was 32.2%, a 20 basis point increase versus the prior year. We still expect a fiscal 2014 tax rate of between 31% and 32%.

Adjusted net earnings from continuing operations decreased 21% to $209 million. Adjusted earnings per share from continuing operations decreased to $0.66 for the quarter.

First-quarter segment sales results and the corresponding organic growth rates are shown on slide 28. Our U.S. Simple Meals segment delivered $860 million in sales, including a $15 million contribution from the acquisition of Plum Organics. U.S. Simple Meals organic sales declined by 6%. Within the segment, U.S. Soup sales also decreased by 6%.

Two-thirds of this decrease was due to movements in retailer inventory levels. Retailers entered the quarter with somewhat higher inventories than prior year. They worked these down and reduced end-of-period inventories versus prior year, partially due to the later timing of Thanksgiving.

Excluding the impact of the Plum acquisition, U.S. Sauces sales decreased by 4%. Declines in gravy, Pace, and canned pasta were partially offset by the introduction of Campbell's Slow Cooker Sauces and gains in Prego, which benefited from our new white sauces.

Our Global Baking and Snacking segment delivered $609 million in sales, including a $52 million contribution from Kelsen. Organic sales were comparable to the prior year, with growth in Pepperidge Farm in Indonesia offset by declines in Arnott's in Australia.

The sales gains in Pepperidge Farm reflected growth across fresh bakery and crackers. In the bakery business, sandwich bread and rolls posted double-digit volume gains, benefiting from the market absence of the former Hostess brands which are just now beginning to return to the shelf. These gains were partially offset by declines in stuffing, primarily due to the holiday timing shift.

The Snacks business had another quarter of growth with good increases in Goldfish snack crackers, partly offset by declines in adult cracker varieties. Sales of cookies were comparable to the prior year. Sales at Arnott's decreased primarily due to sales decreases in Australia, primarily in chocolate varieties, partially offset by strong growth in Indonesia.

Our Bolthouse Farms and Foodservice segment posted $330 million in sales, including $14 million from the additional week of Bolthouse Farms sales in the current quarter. Organic sales declined 2%, reflecting the loss of a major restaurant customer in Foodservice one year ago, while Bolthouse sales were comparable to a year ago as sales growth in premium refrigerated beverages and salad dressings were offset by declines in bulk sales of juice concentrate.

International Simple Meals and Beverages delivered $193 million in sales for the quarter. Organic sales decreased by 7% due to declines in Canada, Latin America, and the Asia-Pacific region.

Sales in Canada were negatively impacted by increased promotional spending related to the launch of new Soup items. The sales decline in Latin America is attributed to lower selling prices associated with the implementation of the new business model in Mexico; and sales in Asia-Pacific declined due to our Australian Soup business.

U.S. Beverages sales declined 8% to $173 million. The decrease in sales was most pronounced in V8 V-Fusion beverages. Sales of vegetable juice and V8 Splash also fell.

Operating earnings for U.S. Simple Meals decreased 23% to $211 million for the quarter. Within the segment, the decline in operating earnings was primarily driven by lower volumes, higher advertising expense, and expenses related to the Plum product recall, partially offset by productivity improvements and net price realization in Soup.

Operating earnings for Global Baking and Snacking decreased 8% to $78 million. Earnings declines at Arnott's and the favorable impact of currency were partially offset by earnings gains at Pepperidge Farm. For the segment, the earnings decline was primarily driven by cost inflation, partially offset by higher net selling prices.

Operating earnings within Bolthouse and Foodservice decreased by 15% to $29 million. The decline in operating earnings was primarily driven by cost inflation and increased advertising for Bolthouse Farms. Bolthouse benefited from the comparison to one less week last year.

Operating earnings for U.S. Beverages decreased by 20% primarily due to lower volume.

Within International Simple Meals and Beverages, earnings decreased by 39% to $20 million. The decrease in operating earnings was primarily due to lower volume, lower selling price, and increased promotional spending.

On slide 31 you see U.S. Soup sales for the quarter declining 6%. Recall that approximately 4 points can be attributed to retailer inventory movement and timing.

Sales of condensed soup declined 7% with declines in both eating and cooking varieties. Volume loss was partially offset by higher net pricing.

Ready-to-serve soup sales fell 11%, driven by declines in both canned and microwavable soup varieties. Broth sales increased 3% primarily driven by double-digit gains in aseptic broth. Campbell's measured consumer takeaway in wet soup for the quarter was down 2%.

On slide 32 we look at US wet soup category performance in the past 52 weeks ended October 27, 2013, and our share performance within the category. The category as a whole rose 2.8%.

Our sales in measured channels rose 3.4%, with gains driven by ready-to-serve, broth, and condensed soup. Campbell had nearly a 60% market share, an increase of 30 basis points.

All other branded players collectively had a share of 28%, and private label a share of 13%. These figures were sourced from SymphonyIRI's multi-outlet report and are based on dollars sales.

Cash flow from operations was $38 million compared with $81 million in the prior year. The decline is due to lower earnings, partially offset by a lower pension contribution. The pension contribution in fiscal 2014 was $40 million, versus $76 million last year.

Capital expenditures of $52 million rose from $41 million a year ago. We are still expecting capital expenditures for the year to be about $350 million.

As we previously announced, we suspended the strategic share repurchase program at the end of fiscal 2012 in order to reduce the debt incurred to finance the Bolthouse acquisition. However, we will continue to repurchase sufficient shares to offset dilution from equity compensation programs.

Net debt rose to $4.5 billion, an increase of $441 million, primarily due to acquisitions. In the quarter we also retired a $300 million note.

Results for the European simple meal business are reported as discontinued operations. The loss from discontinued operations for the first quarter was $9 million or $0.03 per share, compared with earnings of $13 million or $0.04 per share last year.

The change in earnings was primarily due to costs associated with the divestiture, including additional tax expense related to the difference between tax and book basis for the business. In the second quarter, the Company anticipates recognizing a net gain of approximately $75 million after-tax or $0.24 per share for the sale of the European simple meal business.

Campbell's has adjusted its previous fiscal 2014 guidance. Campbell now expects continuing operations to grow sales by 4% to 5%, adjusted EBIT by 4% to 6%, and adjusted EPS by 2% to 4%. The downward adjustment of guidance by 1 point at each line is a recognition of our shortfall versus expectation in the first quarter.

Our forecast is for significant improvement in performance in the last three quarters and the reversal of some of the retailer inventory positions. As a reminder, fiscal 2014 comprises 53 weeks, one additional week compared to last year, the benefit of which is now expected to be partially offset by the impact of currency translation.

The contribution to sales from acquisitions will be lower than the $300 million in our original forecast due to the Plum recall. It is difficult at this point to estimate the full-year impact of the recall on Plum, but we believe that our new guidance range encompasses this risk.

In connection with the new business model in Mexico, reported sales and cost of products sold will be reduced by approximately $40 million. EPS growth reflects the impact of a significant increase in the tax rate.

With that, I will turn it back to Jennifer.

Jennifer Driscoll - *Campbell Soup Company - VP IR*

Thanks, Craig. At this time we will conduct a Q&A session. We would like to request that our callers limit themselves to a single question. In this way we hope to respond to more callers. Kate?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Chris Growe, Stifel.

Chris Growe - *Stifel Nicolaus - Analyst*

Hi, good morning. I just had a question for you with regard to organic revenue growth. I guess as I think about the various factors that worked against revenue here in the quarter -- the recall, the inventory reduction -- it would seem like a lot of those are going to be overcome, if you will, later in the year by improving underlying organic revenue growth.

I just want to understand, I guess first of all, how much organic revenue growth do you foresee within that 4% to 5%? And then I guess just from a modeling standpoint, do we expect therefore an increase in inventory in 2Q, like to counteract some of the declines here in the first quarter?

Craig Owens - *Campbell Soup Company - SVP, CFO, Chief Adminstrative Officer*

So, Chris, to answer the last question first, I think that the expectation on inventory, if you look at the first quarter not only did we work down some of the inventory overhang, if you will, from prior year, but retailers actually finished the quarter lower than prior-year inventories. We would expect to get that back; and in fact we have pretty good evidence that it is coming back for us in November. So, yes, a partial reversal of some of the inventory issues there.

The expectation with respect to organic sales growth going forward is that we would finish the year, I think, with a modest organic sales growth. So positive in the last three quarters.

Chris Growe - *Stifel Nicolaus - Analyst*

Okay. Just a follow-up on that. Did you indicate on the call -- I may have missed it -- but that the month-to-date in November Soup sales were up 8%? Did I get that correct?

Denise Morrison - *Campbell Soup Company - President, CEO*

Yes. That is a gross sales, month-to-date, up 8%.

Chris Growe - *Stifel Nicolaus - Analyst*

Okay. So again, some of the -- didn't we see in, say, the IRI or Nielsen data it's showing it is still a little challenged in the Soup category. That gap would be defined by the incremental inventory, it seems like.

Denise Morrison - *Campbell Soup Company - President, CEO*

Yes, and we believe that that is cycling the Hurricane Sandy consumption.

Chris Growe - *Stifel Nicolaus - Analyst*

Okay, fair enough. Well, thank you very much.

Operator

Alexia Howard, Sanford Bernstein.

Alexia Howard - *Sanford C. Bernstein & Co. - Analyst*

Hello there. Good morning. Can I ask about new products as a percent of sales? I guess within the Soup business you are managing a transition out of the more traditional product into these new packaging formats.

How are those going so far this Soup season? Because I remember this time last year, they were a little light versus expectation. Thank you.

Denise Morrison - *Campbell Soup Company - President, CEO*

I think that the best way to think about this, Alexia, is the Go! Soup, the Campbell's Slow Kettle, and the Bisques in the box soups are building a premium segment of the Soup category. And we are very encouraged by the growth in that particular segment, and we will continue to build new varieties on that, in those lines this year.

Alexia Howard - *Sanford C. Bernstein & Co. - Analyst*

How much do they represent of the U.S. Soup business now, that premium category?

Craig Owens - *Campbell Soup Company - SVP, CFO, Chief Adminstrative Officer*

It is still pretty small, Alexia. It is not a very significant portion of our total Soup sales.

Alexia Howard - *Sanford C. Bernstein & Co. - Analyst*

Okay, great. Thank you very much; I will pass it on.

Operator

Jason English, Goldman Sachs.

Jason English - *Goldman Sachs - Analyst*

Hey, good morning, folks. So some modeling questions. In the context of the first-quarter shortfall, it is difficult to see the clear path to your full-year guidance. Can you help us with a little more granular detail on some of the puts and takes that give you the confidence to get there?

And also any insight you can share on the second quarter, because it seems like delivering the full year is really predicated on a pretty heroic second-quarter delivery.

Craig Owens - *Campbell Soup Company - SVP, CFO, Chief Adminstrative Officer*

I think first of all in the second quarter, we would, as we said, we would expect to recapture some of the first-quarter impact of sales below consumption or lower retailer inventories. Across the year, we will see the progressive benefit of new products and innovation that will help the top line.

As we mentioned, in our Foodservice business we are lapping the loss of one of our major customers. So the first quarter is the last time that you see that impact.

Clearly the Plum impact in the first quarter is a one-off in terms of the recall amount. Now, there may be some ongoing impact on the Plum business as we go forward.

With respect to profit measures as opposed to sale measures, we also -- well actually, impacting both things, we have the restructuring benefit, some of which will be reinvested to help us drive top-line growth as we move through the year. So there are a fair number of factors.

As you look at the first quarter, I think you see a combination of some one-off impacts and some weakness in the core business, no question about that. But then as we look forward we think we have got some offsets and some benefits to the balance of the year, and it does make for a significant swing first quarter to back three.

Denise Morrison - *Campbell Soup Company - President, CEO*

Jason, we have significantly stronger programming in the second and third quarters this year versus prior year, and so -- where we had weaker programming in the first quarter.

Jason English - *Goldman Sachs - Analyst*

If your programming was so much weaker in the first quarter, why was the promotional drag on top line a negative 2%?

Anthony DiSilvestro - *Campbell Soup Company - SVP Finance*

Yes, part of that is due to the fact that in Soup as we raised list prices we held the promoted price that you have. It shows up as a higher rate on promotion.

Jason English - *Goldman Sachs - Analyst*

Okay. Thanks a lot, guys.

Operator

Thilo Wrede, Jefferies.

Thilo Wrede - *Jefferies & Co. - Analyst*

Good morning, everybody. Last year at this time of the year you launched two new Soup brands with the Go! Soups and the Gourmet Bisques, and yet you were able to reduce your marketing expenses. However, Chunky did better even with lower marketing expenses and so on.

So last year, lower margin expenses, better performance. This year you are stepping up your marketing spending to support Homestyle which is, as you relabeled, 100% Natural; and yet the performance is down. Why this discrepancy in performance given the change in marketing spending?

Denise Morrison - *Campbell Soup Company - President, CEO*

Let me clarify that. First of all, our marketing efforts on our new products last year when we launched them, particularly our Soups and our Skillet Sauces, we believe was insufficient to generate the trial that we needed to get to. We actually had better repeat on those products, but the trial was a slower build.

So learning from that, this year we decided to invest in marketing upfront and give our new Soup and Sauce products a proper launch into the marketplace. And we believe that that was the right decision.

For clarity, Campbell's Homestyle is a different kind of soup than 100% Natural. So even though we discontinued 100% Natural and Campbell Homestyle will go into the marketplace in its place, it is a totally different consumer proposition based on the need state of fresh-made goodness. So we felt that it was really important to properly communicate that right out of the gate to consumers and customers.

Craig Owens - *Campbell Soup Company - SVP, CFO, Chief Adminstrative Officer*

Thilo, I think the other thing you have to recognize is that the advertising spend on the base business last year was down versus 2012. Right? So if you are looking at total advertising spend, the base business spend this year would have been about flat with the support against new products on top of it; whereas last year you had a decrease in base spending.

Anthony DiSilvestro - *Campbell Soup Company - SVP Finance*

One other point to mention, there is a significant amount of spend to launch our new dinner sauces in both Slow Cooker and to support Skillet Sauces. So we are still in the awareness and trial building part of that evolution, so you don't necessarily see it in top-line growth in the current quarter.

Thilo Wrede - *Jefferies & Co. - Analyst*

Okay, thank you.

Operator

Ken Goldman, JPMorgan.

Ken Goldman - *JPMorgan - Analyst*

Hi, thanks for the question. Craig, very quickly, what was D&A in the quarter, if you can?

And then Denise, I wanted to get a better sense for why your team's initial forecasts were perhaps a bit off for the Thanksgiving shift. As far as you can tell, was it more a case of retailers ordering less than they had previously indicated? Or was it more to do with maybe a hiccup, I guess, in the forecasting process on Campbell's part?

I am just trying to get a sense of why the magnitude of the Thanksgiving shift impact I guess caught you guys slightly off guard.

Denise Morrison - *Campbell Soup Company - President, CEO*

I will take the second part first. Obviously, we knew when we forecasted that Thanksgiving was going to come later in the year and that Halloween would actually fall in the second quarter. However, what we didn't expect was that retailers would hold off ordering Thanksgiving holiday merchandise until after the Halloween inventory was on the floor and depleted, when in fact that was the behavior that we experienced this year.

In a traditional first quarter, we actually do have Thanksgiving shipments going to market particularly in the last two weeks in October. That did not happen this year. And yet the day after Halloween we saw our shipments tick up in a big way, so we do have confidence in the fact that this was a shift in inventory for the holiday.

Anthony DiSilvestro - *Campbell Soup Company - SVP Finance*

On your other question, depreciation and amortization in the quarter was about $75 million.

Ken Goldman - *JPMorgan - Analyst*

Okay, thank you.

Operator

David Driscoll, Citi.

David Driscoll - *Citigroup - Analyst*

Great, thank you. Good morning. Two quick questions, so just little ones and then a more important one. A&C for the year, I don't think you actually said what your --

Jennifer Driscoll - *Campbell Soup Company - VP IR*

I'm sorry, David, you say you are trying to squeeze in three? I think you are going to have to pick one.

David Driscoll - *Citigroup - Analyst*

They are just little details, but I will do it any way you want. The A&C for the year, and then what was your expectation for the quarter?

Then my most important question is the savings, this $80 million, the two $40 million chunks. Craig, can you talk about how the pacing goes on this in terms of what is incremental in Qs 2, 3, and 4? Should we be thinking that it is like $20 million incremental savings in Qs 2, 3, and 4, just kind of simple math on the $80 million? Thank you.

Craig Owens - *Campbell Soup Company - SVP, CFO, Chief Adminstrative Officer*

So with respect to expectation on A&C in the first quarter, as we said when we reported our fourth-quarter results, we did expect A&C to be up, as it was, so there wasn't any miss versus our own expectation there.

With respect to the savings on the restructuring program, the savings -- not the benefit to the bottom line, because as we said we think we will reinvest a fair bit of this for growth -- but the savings for the balance of the year against the headquarters restructuring program is about $25 million. And the supply chain portion of that is about $40 million for the year; and that is already well incorporated in our discussion around enablers and inflation, which are roughly an offset this year.

David Driscoll - *Citigroup - Analyst*

Are they back-end loaded, though?

Craig Owens - *Campbell Soup Company - SVP, CFO, Chief Adminstrative Officer*

The second one is -- sorry, the first one is. The restructuring -- outside of the supply chain, the restructuring of world headquarters in Australia is back-end loaded.

David Driscoll - *Citigroup - Analyst*

Then this is one of the reasons why the shape of the year can be so different than the first-quarter numbers. I mean the first quarter misses by $0.20, and then the back end has got -- the back three quarters has got just a very different EPS shape. I am thinking that this productivity program is a big reason why.

Craig Owens - *Campbell Soup Company - SVP, CFO, Chief Adminstrative Officer*

That is part of the reason why, yes.

Denise Morrison - *Campbell Soup Company - President, CEO*

Part of the reason; and then the expectation that we will deliver more meaningful growth in the next three quarters.

David Driscoll - *Citigroup - Analyst*

Thank you. Very clear. Thank you.

Operator

Robert Moskow, Credit Suisse.

Robert Moskow - *Credit Suisse - Analyst*

Hi, thank you. I was just curious to know why you provided the gross sales for November, up 8%. Is there any way you can give us a sense of what the net sales were?

Then also is that -- do you think that is the extent of the rebuilding of inventory? Or is there more rebuilding of inventory that you expect in December and January?

Anthony DiSilvestro - *Campbell Soup Company - SVP Finance*

On the gross sales question, we haven't closed the books for November yet, so we don't do the trade calculations until we get through the month. So the only thing we really have to provide for you today is the gross sales, which is why we did that.

Robert Moskow - *Credit Suisse - Analyst*

Is there anything unusual you had to do to get the gross sales up 8%? Or is it just your normal trade spending in November?

Anthony DiSilvestro - *Campbell Soup Company - SVP Finance*

No, nothing to do with trade spending. It is the volume times the list sales compared to the prior year.

Craig Owens - *Campbell Soup Company - SVP, CFO, Chief Adminstrative Officer*

There is nothing peculiar going on at trade spending. It is just, as Anthony said, to give you an accurate number mid-month we have to do it at the gross sales level.

Denise Morrison - *Campbell Soup Company - President, CEO*

Yes, and I think largely driven by the Thanksgiving shipments starting after Halloween. We fell into the second quarter.

Robert Moskow - *Credit Suisse - Analyst*

And as far as retailers building back inventory in December and January, that is not going to be an issue? You think you will ship to consumption in December and January?

Craig Owens - *Campbell Soup Company - SVP, CFO, Chief Adminstrative Officer*

Well, it is really difficult for us to forecast that, Rob, as we proved in the first quarter, right? But I think the point is that we feel pretty confident because of some of the things that we have cited -- the timing of Thanksgiving, some real retailer squeeze on inventories toward the end of the first quarter -- that at least the below-normal inventories at the end of the first quarter would come back. And the reason we have given you the gross sales numbers for November is some indication that is giving us some comfort that it has come back.

Robert Moskow - *Credit Suisse - Analyst*

Okay, thank you.

Operator

John Baumgartner, Wells Fargo.

John Baumgartner - *Wells Fargo Securities - Analyst*

Thanks, good morning. Denise, in Foodservice you've done some work there bringing capacity online and responding to some of the changes in customer demand. How should we be thinking about new business wins unfolding there? Is there anything on the horizon worth noting?

THOMSON REUTERS

And I guess related, how would you characterize the broader Foodservice environment right now?

Denise Morrison - *Campbell Soup Company - President, CEO*

Yes. Well, I think the broader Foodservice environment is challenged as is the retail environment. However, we did bring some capacity online in June that is enabling us to have discussions with many more national customers to meet their needs in fresh soup. So we are having those discussions, and are encouraged by the early days, and expect to be on our plan on Foodservice this year.

John Baumgartner - *Wells Fargo Securities - Analyst*

Thank you.

Operator

Bryan Spillane, Bank of America Merrill Lynch.

Bryan Spillane - *BofA Merrill Lynch - Analyst*

Hi, good morning. Just one clarification, I am trying to -- in understanding the $0.20 variance to consensus, if I look at, I guess, the slide number 9 in the presentation, would it be a rough approximation that roughly half of it was the consensus was just too high relative to what your internal plan was? And half of it is some of the inventory, some of the things that were unanticipated by you going into the quarter?

Craig Owens - *Campbell Soup Company - SVP, CFO, Chief Adminstrative Officer*

Yes, Bryan, I don't want to get into trying to analyze our results against the average of the consensus. But if you think about it by the pieces that Denise cited, in terms of things that I guess nobody really expected, clearly the Plum recall and the part of that inventory decrease -- we anticipated part of it, we didn't anticipate part of it -- were clearly unexpected. And the weakness in the base business was largely unexpected by us.

The things that we did anticipate were part of the inventory timing and the frontloaded spend on marketing. So I would say in terms of what was expected and what wasn't expected, there was probably over half of it that was not in our expectation.

Bryan Spillane - *BofA Merrill Lynch - Analyst*

Okay. That's helpful. Then I just want to make sure I understand. I think in your response to Dave Driscoll's question, the plan for your marketing spend for the full year hasn't changed at all, so you are still anticipating the same level of spend. And then in addition, there is some incremental cost savings related to the restructuring, more restructuring savings.

Did I hear that right? Relative to what your original plan was.

Craig Owens - *Campbell Soup Company - SVP, CFO, Chief Adminstrative Officer*

Yes. So we had said that marketing would be up this year, primarily because of support to the new product introduction and in fact that it would be somewhat frontloaded. And that is still the plan, right?

Frontloaded, you saw it in the first quarter, up for the full year but certainly not at the same rate that it was up in Q1. So the answer is that all of those expectations are still in order.

With respect to the cost savings against restructuring, I think the point with David was -- is that backloaded? And the answer is yes; we will see the benefit of that across the last three quarters.

Bryan Spillane - *BofA Merrill Lynch - Analyst*

Okay. But relative to what was in the guidance that you gave at the beginning of the year, there isn't more savings in your plan now than there was at the beginning of the year?

Craig Owens - *Campbell Soup Company - SVP, CFO, Chief Adminstrative Officer*

I think the way I would think about that is that the restructuring has given us some opportunity to help make up some of the loss that we had in the first quarter, particularly through reinvestment in greater growth in the balance of the year.

Bryan Spillane - *BofA Merrill Lynch - Analyst*

Okay, great. Thank you.

Operator

Andrew Lazar, Barclays.

Andrew Lazar - *Barclays Capital - Analyst*

Morning, everyone. Just a quick one on the acceleration of some of the new products you talked about. I certainly understand why you are bumping those up a little bit to get the top line moving and what have you. I guess I am just curious why, if those new items were ready to go, why I guess the plan was originally not to put them out until the end of the fiscal year.

Is it just you had enough going on already, you thought? Was it a capabilities concern, that you didn't want to put too much out there at the same time?

Trying to get a sense, because it's seems like you are still in the mode of -- even excluding this quarter, you are still trying to obviously get the overall top line in Soup momentum going over a multiyear time frame. So I guess, why wouldn't have these new items been put out when they were ready to go?

Denise Morrison - *Campbell Soup Company - President, CEO*

The new items that I talked about accelerating, the eight new items, were programmed to go in the next fiscal year, which meant they would be shipping the July/August time period in preparation for the next Soup season. We have accelerated those new items and some of them will be going out in quarter 2 and quarter 3. So that is as fast as we can go on those items with the right programming to support them.

Anthony DiSilvestro - *Campbell Soup Company - SVP Finance*

The other point on that -- and Craig mentioned that the new restructuring benefit enables us to put a little marketing support behind those new items, where we wouldn't have had that P&L flexibility before.

THOMSON REUTERS

Andrew Lazar - *Barclays Capital - Analyst*

Okay, so that part of that, that makes sense. Then just to revisit, I know last year as you talked about advertising spending behind the core, but it was lower; obviously it is already at a high level against your core. But it was lower, and some of that was moved over to support some of the new items on the premium side and whatnot.

Do you feel like that decision in any way caused you to have to re-up a little bit more than you expected this year? Maybe you cut a little too deep behind the core, which is coming back to hurt things today. Or do you really think that is probably not an issue in all this?

Denise Morrison - *Campbell Soup Company - President, CEO*

Andrew, we feel that the levels of advertising that we have on the core business are still at very competitive levels, and that it is advertising working in conjunction with the other drivers of demand is the right formula for success on the core Soup business, as evidenced by the performance last year.

On the new products, we really felt that we needed to put some more momentum behind them coming right out of the gate, to get the trial curve sooner, because our repeat is actually very strong on those items.

Andrew Lazar - *Barclays Capital - Analyst*

Thank you.

Operator

Diane Geissler, CLSA.

Diane Geissler - *CLSA - Analyst*

Good morning. I wanted to ask on the Beverage business, which I think you said in your prepared remarks that that underperformed your expectations and then you didn't see really within this fiscal year that it would really stabilize. I guess I am just curious.

What are you seeing in shelfstable versus the premium fresh beverages? Because it seems -- I know that that was one of the major reasons you acquired Bolthouse. But it seems that that even that category is coming under increased pressure because there are new entrants and whenever I look at it in the grocery store it looks like it is kind of over-SKU-ed.

Could you talk about shelfstable versus premium fresh and the behavior of both categories, please?

Denise Morrison - *Campbell Soup Company - President, CEO*

Yes, and obviously we do play on both sides of that business. The shelfstable juice category continues to struggle from category weakness and competition from the proliferation of specialty beverages and, as you indicated, packaged fresh juices. We see that affecting our V8 franchise.

What we do see are some bright spots. We have had seven years of growth of V8 Splash, and we did not have the merchandising levels in the first quarter that we had last year. But we have reinstated those in the year-to-go period, so we will handle the value end of the shelfstable juice business, which we believe has been pretty robust for us.

And on the higher end with Bolthouse Farms, we actually did see high single digit consumption in the Beverage business -- or sales in the Beverage business, and we are still ahead in share. So we will continue with the premium fresh Bolthouse business to increase our innovation going forward, and they have a very robust pipeline coming to market. So we are very encouraged by the performance of Bolthouse Farms as it looks for the year.

So I think that there is definitely a shift. Where we are feeling most of the pressure is in our 100% Red Juice and our V8 V-Fusion. The trends have improved slightly on the 100% Red Juice, but I am admitting that that particular segment of the business is still under pressure.

Diane Geissler - *CLSA - Analyst*

Can you just give me a break on how much is shelfstable versus the premium fresh in terms of percentage of sales? Or -- just trying to get an idea about how much bigger that business is, the shelfstable.

Anthony DiSilvestro - *Campbell Soup Company - SVP Finance*

Yes, all the sales in our U.S. Beverages reporting segment are the shelfstable business. The Bolthouse sales are in the Bolthouse and Foodservice segment. And the shelfstable is about twice as large as the refrigerated.

Denise Morrison - *Campbell Soup Company - President, CEO*

One of the things I failed to mention was we were also driving innovation in shelfstable juices. We have a launch of V8 Refreshers coming out and shipping as we speak. And then V8 V-Fusion + Energy is also performing way above expectation, so we are encouraged by that innovation.

Diane Geissler - *CLSA - Analyst*

Okay, great. Thank you.

Jennifer Driscoll - *Campbell Soup Company - VP IR*

Okay, we are coming up on the hour, but we will try to squeeze in a couple more. Next question.

Operator

Akshay Jagdale, KeyBanc.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

Good morning. Thanks for taking the question. Just on the inventory issue, can you give us some perspective on where we are on inventory levels at retail from a historical perspective?

And just as a follow-up to that, in terms of stock-up trips, what is the outlook for your business longer-term? I mean, how are you managing your business strategically longer-term given that it seems like stock-up trips are down and that is hurting your business? That would be helpful. Thank you.

THOMSON REUTERS

Denise Morrison - *Campbell Soup Company - President, CEO*

Yes, second part of the question first. On the stock-up trips, we have seen for several seasons now the change in consumer behavior on stock-up trips. Whereas once upon a time it was to our advantage to promote with large multiples, today we have adjusted that to -- we still have aggressive programs, but they are in multiples of two or three to reflect that kind of behavior. So, consumers are definitely shopping closer to consumption.

In terms of the inventory, as we said, the inventory levels today coming into the quarter were lower than they were a year ago.

Anthony DiSilvestro - *Campbell Soup Company - SVP Finance*

Yes. I would just add to that if you look at the end of the quarter, we are probably (technical difficulty) I think we are at multiyear lows in terms of absolute levels of inventory.

Craig Owens - *Campbell Soup Company - SVP, CFO, Chief Adminstrative Officer*

Having entered the quarter at a high level, so that there is quite a swing from beginning to end.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

Okay, great. Thank you.

Jennifer Driscoll - *Campbell Soup Company - VP IR*

One last question, please.

Operator

Greg Hessler, Bank of America Merrill Lynch.

Greg Hessler - *BofA Merrill Lynch - Analyst*

Hi, good morning. I just had a balance sheet related question. I think on the last earnings call you had indicated that you expected the total debt balance to be down in 2014. And there was a little bit of an uptick on a sequential basis. Can you just provide some color on why the debt balance increased?

Craig Owens - *Campbell Soup Company - SVP, CFO, Chief Adminstrative Officer*

Because of the acquisition of Kelsen and Plum. Kelsen is the one that is in the quarter.

Anthony DiSilvestro - *Campbell Soup Company - SVP Finance*

Keep in mind that the sale of the European simple meals business occurred in the first day of the second quarter. So obviously our debt level is down since then.

Craig Owens - *Campbell Soup Company - SVP, CFO, Chief Adminstrative Officer*

So we don't have -- we will show proceeds from the European sale in the second quarter.

Greg Hessler - *BofA Merrill Lynch - Analyst*

Got you. Then -- so on a -- I guess, if we are looking at it we should compare -- your total debt balance at year-end for 2014 should theoretically be lower than that $4.4 billion or $5 billion number at the end of 2013; is that the way to look at it?

Craig Owens - *Campbell Soup Company - SVP, CFO, Chief Adminstrative Officer*

Yes, absolutely.

Greg Hessler - *BofA Merrill Lynch - Analyst*

Okay. Then just one more if I could squeeze it in. You guys have a decent sized short-term debt balance and you have a couple of maturities coming up. Do you guys expect that you will be in the debt capital markets this year?

Craig Owens - *Campbell Soup Company - SVP, CFO, Chief Adminstrative Officer*

We don't -- we haven't made any announcement about that. As you saw, the last bond that matured we paid off; and we'll evaluate that as we come up.

I think we have got two -- they actually fall into two different fiscal years, but they are right at the beginning of August of 2014. So probably at that point at least one of those would be partially refunded by a new issue.

Greg Hessler - *BofA Merrill Lynch - Analyst*

Okay. Appreciate it.

Jennifer Driscoll - *Campbell Soup Company - VP IR*

Thank you, everybody. We appreciate you joining us for our first-quarter earnings call and webcast. If you missed any portion of our call, the replay will be available about two hours after this call concludes. Call 1-703-639-1327; our replay pass code is 1625872. You have until December 3, 2013, at midnight, at which point we move our earnings call to the website investor. CampbellSoupCompany.com under News & Events. Just click on Recent Webcasts & Presentations.

If you are a reporter and have questions please call Carla Burigatto, Director of External Communications, at 856-342-3737. Investors and analysts please call me, Jennifer Driscoll, at 856-342-6081 with any questions.

That concludes today's program. Have a great week and a wonderful Thanksgiving and you may now disconnect.
