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The Campbell's Co. (CPB)

Q1 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Campbell's Company Q1 Fiscal 2025 Earnings Conference Call. All participants are in a listen-only mode. After the speakers' remarks, we will conduct a question-and-answer session. [Operator Instructions] As a reminder, this conference call is being recorded. I would now like to turn the call over to Rebecca Gardy, Chief Investor Relations Officer at Campbell's. Please go ahead.

Rebecca Gardy

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

Good morning, and welcome to the Campbell's Company first quarter fiscal 2025 earnings conference call. I'm Rebecca Gardy, Campbell's Chief Investor Relations Officer. And joining me today are Mark Clouse, Chief Executive Officer; and Carrie Anderson, Chief Financial Officer.

Today's remarks have been pre-recorded. Once we conclude the prepared remarks, we will transition to a live webcast Q&A session. The prepared remarks, the slide deck, and earnings press release have been posted to the Investor Relations Section of our website, thecampbellscorporation.com. Following the conclusion of the Q&A session, a replay of the webcast will be available at the same location, followed by a transcript of the call within 24 hours.

Slide 2 outlines today's agenda. Mark will provide insights into our first quarter performance as well as our in-market performance by division. Please note effective first quarter fiscal 2025 and going forward, we are using Circana MULO+ for in-market data. Carrie will then discuss the financial results of the quarter in more detail and review our guidance for the full fiscal year 2025, which we reaffirmed last night.

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

Before I turn it over to Mark one last time, I wanted to personally thank you, Mark, for your extraordinary leadership and unwavering commitment to excellence. And now, with that, Mark?

Mark A. Clouse

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

Before we review our results, I want to take a moment to address last night's announcements of my plans to retire from Campbell's and transition with the incoming CEO over the next two months. I'd like to congratulate Mick Beekhuizen on becoming the 15th CEO in Campbell's 155-year history. The Board and I have full confidence in his readiness to lead this great team and company.

As I prepare to step back, Campbell's could not be better positioned for the future. I believe that Campbell's has the top leadership team in the business. They are experienced, engaged, and fully committed to setting the standard for performance. Together, we built the best portfolio in all of food and transformed the company. This enables me to make this decision with the utmost confidence in the company's trajectory going forward. With our strategy firmly rooted and our team highly engaged and aligned, I'm certain that Campbell's future is bright.

Leaving Campbell's was not an easy choice. Since I was a boy, sports have played a very important part of my life, and the idea of working in the world of sports and in particular the NFL, has been a lifelong goal. It is truly a once in a lifetime moment to become the team president of the Washington Commanders. I'm incredibly grateful to Josh Harris and the Washington Commanders Ownership Group for the opportunity to lead this iconic franchise into a new chapter of growth. I look forward to supporting ownership and the entire Commander's Team and doing everything in our power to build a championship caliber organization.

These last six years have been an incredible privilege and honor, as well as the most rewarding professional experience in my nearly 30 years of working in the food industry. Without question, what made it so special is the entire Campbell's team. Seeing their passion and commitment day in and day out was a great source of inspiration for me through what proved to be an incredible journey. I'd also like to thank the Campbell's Board of Directors and Investors for their trust and support over these last six years.

Now let's turn to Campbell's first quarter results. We began fiscal 2025, with the first quarter generally in line with our expectations, with net sales up 10%, reflecting the momentum that Sovos added to our top line performance. Organic net sales were down 1%, reflecting a continued dynamic consumer environment and some impact due to movements in retailer inventory levels influenced by the later timing of the Thanksgiving Holiday this year.

We delivered 6% year-over-year growth in adjusted EBIT and an adjusted EPS of \$0.89. Excluding Sovos in market performance was flat in line with expectations, with the difference between our organic net sales and in-market consumption explained by the later Thanksgiving Holiday that I mentioned earlier for Meals & Beverages and lower partner brands, net sales, and snacks. Importantly, our 16-leadership brands showed growth in both dollar consumption and share in the quarter, including Sovos on a pro-forma basis in market dollar consumption was positive 2%. The team continues to do an excellent job navigating the complex environment while delivering strong productivity, cost savings, and remaining ahead of our plans on the integration of the Sovos business.

We reaffirmed our fiscal 2025 guidance, which reflects our expectation of steady progress and incorporates an appropriate level of pragmatism. The upcoming second quarter, which includes the critical holiday season will serve as an important milestone for progress in delivering our full year commitments. We expect sequential topline and market share momentum in Q2 with continuing progression into the second half of our fiscal year. Carrie will provide more details on guidance in a moment.

On slide 6, I want to briefly expand upon the material benefit we are experiencing with the integration of Sovos. While our Q1 organic net sales declined 1% from the prior year, with flat volume and mix, when including the pro-forma contribution from Sovos, total company net sales would have been flat to the prior year with positive volume and mix. The growth of Sovos and specifically the Rao's brand is exceeding our expectation and adding important momentum to our Meals & Beverages division and the company.

The overall food sector continues to reflect improvement with favorable trends across multiple fronts starting with improving consumer confidence. We're seeing further stabilization in food volumes as prices continue to normalize, and we continue to anticipate ongoing recovery throughout fiscal year 2025. Although not every category is recovering at the same pace, we continue to be encouraged by this overall progress. And with 75% of our portfolio in growing categories, we continue to be in an advantaged position as the consumer recovery continues.

As we recently discussed at our Investor Day, we have transformed Campbell's portfolio and have evolved the way we talk about our most important brands. We call these 16 brands our leadership brands with eight in Meals & Beverages and eight in snacks. In the first quarter, these brands represented the majority of total enterprise net sales and segment operating earnings and held advantage number one or number two positions in almost all of their respective categories.

In Q1, leadership brands grew dollar consumption by nearly 2% with positive share growth. We continue to experience pockets of competitive pressure in certain snack categories, from new entrants and some continued trade down to private label in salty snacks and cookies. However, we remain confident in the strength of our leadership brands and our plans throughout the balance of the year.

Now, let's take a closer look at each respective division. Moving to our Meals & Beverages division on slide 9, organic net sales were flat compared to the prior year with volume and mix growth of 1%. Net sales were impacted by movements in retailer inventory driven by the later timing of the Thanksgiving Holiday this year. This is evident in the higher 2% dollar in-market consumption growth, reflecting a 200-basis point difference to organic net sales growth. On a pro-forma basis, with the addition of Sovos Brands, Meals & Beverages net sales grew 2%, fueled by 3% volume and mix growth with in-market dollar consumption increasing 5%.

Turning to page 10, our soup portfolio strengthened in Q1 as expected, with Campbell's dollar consumption increasing modestly ahead of or in line with the category average. This is the third consecutive quarter of dollar share growth, driven by broth in our condensed cooking segments, along with improving Ready-to-Serve trends as we head into soup season.

In broth, Swanson continued to benefit from the combination of increased category usage and private label service challenges. Private label is recovering and we expect modest share headwinds in the second quarter with that increasing in the second half of the fiscal year as private label fully recovers.

As we have said previously, although we expect share to normalize over the next 12 months, the incremental growth and households we added to our brands during this period gives us an excellent opportunity to retain more of those consumers going forward. Our condensed soup segment grew share for the fourth consecutive quarter, led by our red and white cooking soups growing share and outpacing private label as consumers continue to cook at home with quality brands they trust. We expect condensed eating soup to improve with colder weather.

And finally, as expected, we saw stabilization in our Ready-to-Serve portfolio. We gained share, led by strong performance in Chunky, Rao's and Homestyle driven by our focus on innovation, marketing and in-store execution across the entire Ready-to-Serve portfolio. This growth also includes the planned de-listment of Well Yes!, representing just under a share point of headwind in the quarter.

Looking at our Italian sauce portfolio on slide 11, the combination of Rao's and Prego continues to deliver exceptional momentum across this billion-dollar platform. The remarkable performance of Rao's stands out, with in-market consumption maintaining a robust 15% growth. This momentum pairs beautifully with Prego, which delivered a 5% increase in market. By positioning these powerhouse brands to serve distinct consumer segments and price tiers, we've created an impressive platform to expand our market presence and fulfill diverse consumer preferences. Our sauce portfolio exemplifies our ability to capture growth across multiple segments, while maintaining strong brand equity in both the premium and mainstream spaces.

Rao's continues to perform better than expected, and now we expect pro forma growth in fiscal 2025 to be slightly above 10% versus the previous guided high-single digits. Over the long term, we continue to expect Rao's growth to settle in at a mid-single-digit growth range. Additionally, integration is progressing exceptionally well as the Distinctive Brands team drives both operational excellence and strategic advancement across the portfolio.

What excites us most is the substantial headroom for expansion. While Rao's leads the Italian sauce category in dollar share, it achieves this despite reaching only half as many households as Prego and maintaining just 60% of the SKU assortment of Prego. Our research shows particularly strong momentum, with millennial household adoption surging at more than twice the category's pace. This remarkable traction with younger demographic strengthens our conviction about Rao's long-term potential.

We are also excited about expanding into promising segments like Alfredo varieties and even more premium offerings such as white truffle marinara, which we believe will further accelerate household penetration.

One area that continues to fuel incremental growth is the strong value and quality comparison between Rao's and mainstream Italian takeout. This position allows Rao's to source volume from a far bigger addressable market and a broader range of consumer income levels.

Turning to our Snacks business on slide 14, we delivered encouraging progress in several key areas despite facing a 2% decline in organic net sales.

Worth noting is that organic net sales were impacted by approximately 1 percentage point from our planned reduction in partner brands, reflecting our strategic and deliberate portfolio reshaping efforts discussed at our recent Investor Day. This strategy allows us to concentrate resources on our differentiated leadership brands, where we see the greatest potential for sustainable growth and margin enhancement.

As shown on slide 15, in Q1, we saw overall snacking categories beginning to recover as expected. We held or grew share in several areas with solid performance in our crackers, fresh bakery and deli snack segments, while navigating a more competitive environment in the salty snacks segment and cookies.

Let me start with what's working well. Goldfish held its number one position with teens in the first quarter during the important back-to-school season, and consumers continued enthusiastic response to platforms like Goldfish Crisps, validating the extendibility of this \$1 billion brand. Pepperidge Farm bakery continued its momentum from the fourth quarter, growing both in volume and share as both innovation and in-market execution continue to fuel momentum.

And in deli, Snack Factory, including our seasonal Pumpkin Spice pretzels, delivered in-market growth and share gains. We are incredibly excited about Snack Factory expanding into the pretzel aisle with Pop'ums and Bites, unique munchable and big flavor additions that will now sit alongside our Snyder's of Hanover unique platforms.

In salty snacks, although new entrants and some stepped-up promotion are putting pressure on shares, the competitive environment has remained constructive. We have fully integrated plans in Q2 that include innovation, marketing and some increases in appropriate promotion to remain competitive and defend in key core segments. In cookies and pretzels, we've experienced more pressure from private label. In these areas, we'll remain disciplined on pricing while ramping up advertising and innovation, especially as we head into the key holiday season.

These past weeks, you would have seen our full line of Pepperidge Farm holiday cookies is on display with our first ever collectible holiday cookie jars. Fancy Santa returns to help support the launch of White Chocolate Milano's, and get ready to build Snyder's Pretzel log homes, and give the Gingerbread people a break this holiday season.

In summary, consumer trends and category recovery continue to make progress. Although not every category is recovering at the same pace, we continue to expect an improving environment through the balance of our fiscal 2025.

Our first quarter results were generally aligned with our expectations, propelled by the Sovos Brands acquisition, strong leadership brand performance, and continued best-in-class execution. We are ensuring that we are well positioned in Q2 for the key holiday season and expect Q2 to demonstrate sequential improvement as we maintain our pace toward delivering our full-year fiscal 2025 guidance. We've made significant progress with the Sovos Brands integration, and behind the strength of the Rao's brands, we now expect the acquisition to be accretive to adjusted EPS in fiscal 2025.

Overall, with our continued confidence in the team portfolio and execution, we remain well positioned to continue to navigate the environment as it continues to improve.

With that, let me turn it over to Carrie.

Carrie L. Anderson

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

Thanks, Mark, and good morning, everyone. Our first quarter results were generally in line with our expectations, with over performance from Sovos Brands and an earnings performance in line with expectations. Reported net sales were up 10%, driven by the strong sales contribution from Sovos. Organic net sales, excluding the impact of acquisitions, divestitures and currency decreased 1%, reflecting a continued dynamic consumer environment and some impact due to the movements in retailer inventory levels influenced by the later timing of the Thanksgiving Holiday this year. Adjusted EBIT grew 6%, reflecting the strong contribution from the acquisition, while adjusted EPS decreased 2% to \$0.89 due to higher interest expense stemming from higher levels of debt. The impact of

the acquisition was approximately neutral to adjusted EPS in the quarter, which continued to exceed our expectations.

Turning to slide 21. As mentioned earlier, organic net sales for the first quarter were down 1%. This was driven by flat volume and mix, offset by anticipated unfavorable net price of 1%. Sovos Brands added 12 percentage points to reported net sales growth. On slide 22, first quarter adjusted gross profit margin declined 70 basis points, primarily driven by a 60-basis point impact from the acquisition. Excluding the acquisition, our base business adjusted gross margin was down a modest 10 basis points, with productivity improvements and cost savings initiatives largely offsetting inflation and other supply chain costs and planned unfavorable net price realization.

For the full year, we expect our planned productivity and cost savings initiatives to be more than sufficient to offset the impact of low single-digit core inflation for the full year. In the first quarter, we delivered approximately \$30 million of savings under the new \$250 million cost savings program, of which approximately \$9 million was Sovos integration savings.

Turning to slide 23, marketing and selling expenses and admin expenses increased in total dollar spend from the prior year, reflecting the integration of Sovos Brands. However, both expense areas remained flat as a percentage of net sales. Within marketing and selling expenses, advertising and consumer promotion expenses rose by 13%, primarily driven by the impact of the acquisition. Adjusted administrative expenses increased 9%, again driven by the impact of the acquisition as well as higher general administrative cost and inflation, partially offset by the benefits from cost savings initiatives.

As shown on slide 24, first quarter adjusted EBIT increased 6%, primarily due to adjusted gross profit, partially offset by an increase in adjusted marketing and selling expenses and adjusted administrative and R&D expenses. On slide 25, adjusted EPS moved modestly lower to \$0.89, primarily as EBIT growth was more than offset by higher interest expense related to the acquisition and the refinancing of \$1.15 billion of our outstanding bonds. As we've mentioned earlier, the acquisition was approximately neutral to adjusted EPS in the quarter.

Turning to slide 26, Meals & Beverages first quarter reported net sales increased 22% due to the contribution of the acquisition. Pro forma Q1 net sales growth for the division as if we had owned Sovos for all of Q1 fiscal 2024 would have been approximately 2%, driven by the respective pro forma Q1 growth of Sovos of 14%. Organic net sales were flat to prior year, driven by gains in Prego pasta sauces, Canada and foodservice, offset by later Thanksgiving timing driven inventory declines. Positive volume and mix of 1% was offset by unfavorable net price realization. US soup in-market consumption was positive 1% compared to a decline in US soup organic net sales with the difference driven in part from the impact on retailer inventory of the later Thanksgiving holiday this year.

Additionally, first quarter operating earnings in the division increased 17%, primarily due to the benefit of the acquisition and lower marketing and selling expenses in the base business. Q1 operating margin for Meals & Beverages decreased 60 basis points to 19.8%, driven by the impact of the acquisition as expected. Excluding the acquisition, operating margin improved year-over-year. First quarter organic net sales in snacks decreased 2%, driven by declines in partner and contract brands, Pepperidge Farm cookies, Goldfish crackers and late July snacks. Sales were impacted by volume and mix declines of 1%, reflecting an approximate 100-basis point headwind from lower partner and contract brand sales and lower net price realization of 1%.

Snacks operating earnings in the quarter declined 12% due to lower gross profit, as the impact of inflation and other supply chain costs and lower price realization were partially offset by supply chain productivity. Q1 operating margin for snacks decreased 120 basis points to 13.3%. This was driven by lower gross profit margin and higher marketing and selling expenses as a percent of net sales. We expect stronger operating earnings growth and

margin performance in the second half of the year, reflecting improving volume trends, a more neutral second half net price impact compared to the prior year, favorable mix with stronger contribution from leadership brands and a higher benefit of productivity and cost savings, net of core inflation and other supply chain costs.

Turning to slide 28, we generated \$225 million in operating cash flow in the first quarter, a 29% increase from the prior year. We continued to prioritize reinvestment back into the business to drive incremental growth, productivity and enhanced business capabilities with Q1 capital expenditures of \$110 million. We also remain committed to returning cash to our shareholders, with \$116 million of dividends paid and \$54 million in anti-dilutive share repurchases in the quarter. We also announced a 5% increase in our regular quarterly dividend for dividends payable on January 27, 2025, reflecting confidence in our earnings, cash flow and long-term growth potential.

Our net debt to adjusted EBITDA leverage ratio at the end of the first quarter was 3.7 times, reflecting the financing of the Sovos acquisition, and in line with our ratio at the end of fiscal 2024. We remain committed to investment grade ratings, and our goal is to return to our three times net leverage target in fiscal 2027. At the end of the first quarter, the company had approximately \$808 million in cash and cash equivalents, and approximately \$1.85 billion available under our revolving credit facility. On October 2nd, we completed the issuance of \$1.15 billion in bonds to refinance existing debt. Based on our Q1 performance, we are reaffirming our fiscal 2025 full year guidance provided on our fourth quarter earnings call. Accordingly, guidance ranges reflect a balance between expected sequential progress and pragmatism as the company continues to navigate the current environment. The upper end of the range anticipates a quicker normalization of the consumer landscape, while the lower end of the range assumes a slower, more conservative pace of recovery.

As Mark mentioned, and like other companies in the food industry, we continue to operate in a dynamic macroeconomic and consumer environment. To continue to meet this near-term challenge, we have planned for less than 100 basis points of net price investment for fiscal 2025, with a step up in Q2 to support the crucial holiday period. To balance this need, we have a robust pipeline of savings and performance opportunities to support this investment. These opportunities include the following. First, an acceleration in full year fiscal 2025 cost savings pursuant to our new three-year \$250 million program. Savings for fiscal 2025 are now expected to be in the range of \$90 million, up from our prior expectation of \$70 million.

Second, full year adjusted net interest expense is now expected to be in the range of approximately \$340 million to \$345 million, a \$10 million improvement from our prior guidance, primarily driven by the lower coupons on the debt issued to refinance \$1.15 billion of debt that matures later this fiscal year. And third, as we've mentioned earlier, Sovos Brands specifically Rao's continues to perform better than anticipated. Accordingly, Sovos' pro forma growth for fiscal 2025 is now expected to be slightly above 10%, an increase from our earlier expectation of high single-digit growth. The acquisition is now expected to be accretive to adjusted EPS in the second half and for the full fiscal year. Collectively, these three areas provide confidence to maintain our guidance range while also creating the necessary room to continue to invest behind our brands and stay competitive while navigating this dynamic environment. The second quarter will be an important indicator of progress in meeting our expectations. Should the consumer recovery be prolonged beyond the second quarter, the lower end of the company's sales and adjusted EPS guidance would become more likely.

Specifically, for Q2, we expect to see sequential improvement from the first quarter, with organic net sales growth to be relatively flat versus the prior year with positive volume and mix. Adjusted EPS is expected to be in the low \$0.70 range, reflecting a sequential step up in investment levels in both marketing and selling expenses as a percent of net sales and net price to support holiday and innovation launches and to maintain competitiveness. Looking at the second half of fiscal 2025, we expect organic growth to modestly improve from the first half. Reflecting the contribution of Sovos Brands moving into organic growth as of March 12, 2025, and improving

trends on the base business, partially offset by lower expected net sales of our broth portfolio as we cycle outsized growth in the second half of fiscal 2024 related to a competitor supply issue.

In addition, we continue to expect adjusted EPS progress in the second half of fiscal 2025, reflecting a more neutral net price and marketing expense impact compared to the prior year, higher net benefit of productivity and cost savings, including savings from the integration of Sovos, a lower year-over-year headwind from interest expense, and a \$0.07 benefit from the 53rd week in Q4.

Recall, On November 12, we announced the planned divestiture of noosa. Our full year fiscal 2025 guidance does not yet reflect the impact of the pending divestiture, which is expected to close in the first quarter of calendar year 2025. We'll plan to update our guidance on our next regularly scheduled earnings call following the closing of the transaction. noosa's trailing 12 months of net sales through the end of October was \$177 million, and the transaction is expected to be dilutive to earnings per share by approximately \$0.01 in fiscal 2025. All other underlying guidance assumptions remain unchanged.

To wrap up, we were pleased with our Q1 performance, which was generally in line with expectations with strong results from Sovos Brands. We remain focused on delivering value to our consumers and partnership with our customers, making progress on our productivity and cost savings initiatives, while continuing our capital discipline and consistent cash generation to reward our shareholders.

For the full year, we are reaffirming our guidance and are taking a measured, balanced approach to a more competitive environment by building out a pipeline of additional savings that enable us to continue to position our brands for the long term.

That concludes our prepared remarks. Before turning the call over to the operator, I want to congratulate Mark on his new opportunity, and I look forward to working with Mick in his new capacity as Campbell's future CEO.

Operator, let's open the call for Q&A.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question will come from Ken Goldman from JPMorgan. Please go ahead. Your line is open.

Ken Goldman

Analyst, JPMorgan Securities LLC

Q

Hi. Good morning. And Mark, a hearty congratulations to you. It's incredibly exciting to hear about this. It doesn't happen every day where you see one of our CEOs going to the NFL. So it's unique, and I'm happy for you.

Mark A. Clouse

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

A

Thank you, Ken. Thank you.

Ken Goldman

Analyst, JPMorgan Securities LLC

Q

I wanted to ask about the gross margin and marketing. They came in both a little bit below consensus expectations. You provided a helpful breakdown of the gross margin drivers as usual. But just versus your own expectations, I know the quarter broadly came in line with what you were looking for, you said, but as we think about the gross margin and marketing, kind of those building blocks of the EBIT margin, how did they perform versus what you anticipated coming into the quarter?

Mark A. Clouse

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

A

Yeah, it's a good question, Ken, and I'll try to give you a little bit of insight on a couple of differences and then have Carrie add some color to it. But I think the primary building blocks. So, if you think about what we expected pricing to do, what we expected productivity to do, and cost savings to do, all of those were very much in line with what we expected. So, no surprises really across the board. I think perhaps the piece that was – a little bit difference was the mix of the business. So we had a, as you would have seen, a very, very strong performance out of Rao's and Sovos, a little bit softer organic business really reflective of the later timing of Thanksgiving and the inventory shift that occurred primarily in Meals & Beverages. If you think about what those categories are, those are generally very favorable to our mix, and we would have seen a little bit of more pressure coming in through that combination.

I mean, as Carrie mentioned, if you take the Sovos mix impact out, you essentially were neutral, down slightly but neutral. But that was probably the biggest driver of maybe a little bit of the disconnect between what was expected and what came in. Although I would say, from a materiality standpoint, not a major swing. Carrie, anything to add to that?

Carrie L. Anderson

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

A

Yeah. I would just elaborate on that, is that as you think about that mix of gross margin, you had higher Sovos and Rao's, which is at a lower margin profile. And then our legacy business, which has a higher margin profile came in a little lower. So, that created a mix issue there. In addition, in terms of the beat on the bottom line, the other thing, that interest expense came in a little bit better and I think that's a good thing. I think we've been

proactively managing interest expense. We accelerated a refinancing of our debt that's coming due later this year. So, all of that was helpful as we continue to move Sovos to that accretive nature for the full year.

Mark A. Clouse

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

A

Yeah. And maybe if we – just to finish that bridge all the way to walk down, I know, in seeing some of the conversation over the evening and into this morning, the marketing and selling phasing that we've got for the year, if you would have seen in this quarter, we were – on the base business, obviously, we're up because of the addition of Rao's, but essentially flat on the organic business. And as we talked about, we do expect to step that up. I think you'll see that much more significantly in Q2 because, obviously, that's where the holidays are, but that's also where a lot of our innovation is. So, although I think that may have been a little bit of a disconnect, we were obviously in a very solid position on investment for Q1. But I think you should expect to see, as we laid out kind of expectations for Q2, a little bit more of a step-up in investment there.

Ken Goldman

Analyst, JPMorgan Securities LLC

Q

Okay, thanks. And before my follow-up, I've already been messaged by two people saying I was overly effusive in my praise. So, I guess I'll throw in a Fly, Eagles Fly, to offset that. But the...

Mark A. Clouse

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

A

Raise Hail. Raise Hail is the right one, Ken. That's the new one that you need to learn.

Ken Goldman

Analyst, JPMorgan Securities LLC

Q

I don't acknowledge that. So the bar for 2H remains, I guess, a bit higher, just to jump back to Campbell's, than some investors might be comfortable with, I guess is the right way to say it.

Mark A. Clouse

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

A

Yeah.

Ken Goldman

Analyst, JPMorgan Securities LLC

Q

Is there anything unusual in terms of timing benefits, tailwinds we should be considering as we model the back half of the year? Just things that may not be obvious to observers of the company at first glance.

Mark A. Clouse

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

A

Yeah, I think there are. And so, Carrie, why don't you walk through a little bit of the – what we would describe as the pathway.

Carrie L. Anderson

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

A

Yeah. As we think about the second half, we do expect organic growth to modestly improve from the second half – for the first half, sorry, reflecting Sovos moving into that organic growth mid-March. And then as you think about

the underlying business, we do expect improving trends, partially offset by lower expected broth net sales as we outsize that outsized growth from last year related to a competitor supply issue. So overall, again, modest improvement, nothing that's significant in the second half as we think about organic growth trends.

As we think about the P&L, this is where I think there is some items to call out. We would expect second half EPS progress and margin progress reflecting a more neutral net price and marketing impact versus the prior year. We would have a higher net benefit of productivity and cost savings in the second half compared to the first half, and that includes savings from the integration of Sovos as we talk about that moving into accretive nature in the second half. Lower headwind from interest expense. So, we'll start to lap that from the acquisition that was mid-March last year. And so that'll be a lower headwind than it was in the first half.

And then the other thing to remember is that we have the 53rd week benefit in Q4. So, that's a \$0.07 benefit in Q4 that won't be in other companies' fourth quarter, right? That's unique to us in our fourth quarter in terms of the timing there. So, I think – and as I think about those things, the areas that are doing better was around the interest expense coming in favorable, cost savings being accelerated. So seeing some really strong out of the gate performance in our cost savings and then overall, Sovos. And the last thing I would leave with is the fact that again, as we think about all of that, continue to have good confidence on our earnings and our cash flow. And I just want to also end on the fact that we did increase our dividend as well.

Mark A. Clouse

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

A

Yeah. Which is a good I think backstop of confidence in the business. I think, just the only thing I would add is, when you think about the – we'll end up being four months of contribution from a better than expected performing Rao's and the strength that we're seeing in the cost savings agenda overall, and a little bit of help from lower interest and as I, as Carrie said earlier, I do see that as a successful execution of managing our debt, which was an important variable in this year.

That is giving us a little more confidence even in light of needing a bit more investment. Again, when we think – when we talk about price just to make sure I'm managing folks' expectations, when we say we're adding a little bit more support in Q2, I think important to understand the drivers of Q2, but for the full year, we're still expecting something less than a 100 basis points for the full year. And that I think, is not a material difference from really where we were when we started the year and gave guidance. So, hopefully that helps a little bit in bridging that back half expectation.

Ken Goldman

Analyst, JPMorgan Securities LLC

Q

Thanks very much.

Operator: Our next question comes from Andrew Lazar from Barclays. Please go ahead. Your line is open.

Andrew Lazar

Analyst, Barclays Capital, Inc.

Q

Thanks. Good morning. And let me add my congratulations to you as well, Mark. And also congratulations to Mick.

Mark A. Clouse

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

A

Thanks, Andrew.

Andrew Lazar

Analyst, Barclays Capital, Inc.

Q

Sure. Maybe, just following on with the prior question for a minute around the back half, organic sales came in sort of down 1% in the quarter versus expectations for kind of a flattish result. And you now expect flat organic sales in fiscal Q2 where the Street was looking for sort of a modest year-over-year increase. And I guess, we've seen many calendar year reporters in the food space recently discuss sort of their expectations for another below algorithm year, next calendar year, which would kind of correlate to Campbell's back half of your fiscal 2025 when you expect results to continue to sort of improve.

So, I guess I'm just trying to get a sense of, I know you went through some of the drivers just now around the back half, but I mean, how much are you taking into account some of those factors, right, that...

Mark A. Clouse

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

A

Yeah.

Andrew Lazar

Analyst, Barclays Capital, Inc.

Q

...many industry players are already kind of saying, hey, next year is kind of not a lost cause, but like not going to be kind of where we want it to be. I'm trying to like square those two things, I guess.

Mark A. Clouse

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

A

Right, right. And I think one of the things that's important and kind of landing expectations is that, it's not as if we're anticipating, a comprehensive hockey stick, if you will. I think the way I'm thinking about the back half when I look at both what we're cycling. And I do think if you go back and look at our back half a year ago, we were starting to experience a little bit of tougher headwinds already as we started to see the consumers behaving differently. And I think, that is a backstop different than the first half, gives you a little bit of confidence in a step-up, and then I overlay on top of that the fact that we are going to add some organic help from Rao's into our organic numbers. You've got a very robust level of investment that's in our baseline already, along with a very strong innovation program and platform on top of it.

So although I don't necessarily disagree with the perspective of how we feel and we always have said, we did not expect fiscal 2025 to be on algorithm year as it was more of a transitory period, which is inclusive of that back half as well, albeit a step-up from where we were in the first half. Again, all very consistent with what we have expected. And I think again, I think we want to see Q2, this is the first quarter, we've done a nice job. I think navigating a variety of different variables to lay in where we did. I think we've got a very robust plan in Q2. And I think to be completely transparent, I want to see that impacting share and driving the expectations we have, which will give us greater confidence, and what the back half looks like. And again, what you can always count on us to do is give you kind of real time view of how that's going. But for what we see today and as we look at what we are cycling, we feel like we're in a good position to see that modest improvement as we get to the back half.

Andrew Lazar

Analyst, Barclays Capital, Inc.

Q

Got it. And that's really helpful. And then just with the modest increase, it seems like in full year sort of marketing and promotional investment and such, most of that to fall in 2Q, where would that sort of put you from a promotional perspective at the end of this year versus let's say where you were a couple of years ago, right, pre-pandemic and all of that, would that still be...

Mark A. Clouse

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

A

Yeah.

Andrew Lazar

Analyst, Barclays Capital, Inc.

Q

...relatively in line with where you were or does it take you beyond that? I'm just trying to get a sense of context there. Thank you.

Mark A. Clouse

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

A

Yeah, it's a good question. I mean, I feel like we very much are in line with where we have been historically, but I would say that I feel like from a promotional standpoint, given the competitive nature of the landscape. And again, none of that's a big, I would say, surprise to anyone. I think we have cycled to a level that is consistent with where we've been before. I do not see nor do I believe we will need any type of disproportionate reduction in the price points. Right? I think that's important, especially in categories like cookies and pretzels.

We know that at the end of the day, we've got to win those fights through the balance of equity driven by marketing and innovation, appropriate levels of promotion. But we do not intend to lose sight of the fact that we need to remain disciplined on price. And so that's the plan that we have. And, the good news is on both of those categories, again early into the next quarter, but if I look at the latest four weeks where we're starting to see the beginning of holiday and a lot of our programming, especially on cookies, I see shares beginning to stabilize. And that is a really good indicator for us as we go into the Q2 timeframe.

I think in the other areas of salty where we're also experiencing a fair amount of competitive pressure. In those particular cases, it's actually all coming from new entrants, right? Whether it's salty or whether it's Kettle pretzels or even tortilla chips, really what we're fighting there is some new entrants. These are sub-segments that are doing very well relative to the broader salty universe. And so we've got a little more competition. So again, there, I think, the fight's not being waged on price, it's really about ensuring that we're bringing the appropriate news and innovation along with a competitive promotional calendar. So, as I look at snacks where we're experiencing more of the competitive pressure, I don't see anything that's pushing us into unsustainable or unreasonable levels of promotion.

Andrew Lazar

Analyst, Barclays Capital, Inc.

Q

Great. Thank you so much.

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

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

Hey, guys. Good morning. Congrats to Mark and to Mick. And Mark, I guess we'll look forward to Jayden Daniels being in the Campbell's Chunky Commercials next year.

Mark A. Clouse

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

A

Two separate universes, Peter. Two separate universes.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

Mark, maybe just one kind of nuanced question that we're getting this morning just around the inventory timing shift related to Thanksgiving, just maybe you can unpack that a bit more given your kind of an October quarter end with Thanksgiving later and if you can just quantify at all kind of how much you think it moved?

Mark A. Clouse

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

A

Yeah. So, the easiest way to think about it is if you look at the Meals & Beverages profile for the quarter, you'll see about a 2-point, roughly a 2-point delta between the in-market consumption and the net sales. I would tell you that from a Canada and foodservice, we did just fine in those, and so really, the majority of that difference is coming through some of that pressure in inventory.

Now, I do think it's fair to say that retailers in general have been very focused on managing inventory levels down in general. But I do think the later week of or the week later of Thanksgiving certainly had an impact and I would say more than half of that would have been related to that swing. And again, I think the good news is, as we pivot into the month of November, still too early to give kind of a full picture of Thanksgiving. But certainly we saw some of that inventory build earlier in the month of November, which would have been a little bit later and moved out of the first quarter into the second.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

Got it. Okay. No, thanks for that. And if I just go back to the slide you had on Rao's and some of the sourcing occasion that you mentioned. I'm just curious kind of what data you're looking at internally or what you're seeing that suggests that that's actually the case that you are seeing Rao's specifically kind of sourced share from some of the Italian concepts in the restaurant channel?

Mark A. Clouse

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

A

Yeah. I think one of the, well a couple of things that first, more broadly speaking, I would say you're still seeing, from a broader consumer dynamic, you're still seeing migration from away from home into home for meal occasions. We're up in the low 80s, 83%, which is still up versus a year ago, and so that migration continues. I think what we're seeing in Rao's is so encouraging is a fair amount of this growth that we're experiencing is coming from middle and lower middle income households. And as we explore with consumers, the appeal and remember these are also consumers that are buying Prego as well. And so, in trying to understand and segment, how to focus on the Prego business as well as the Rao's business, we really want to try to understand occasion.

And one of the areas that we've consistently uncovered in the team actually has been focused on this even before the acquisition is this idea of significant value versus what you may get from a takeout or online order, DoorDash and so forth. And that tracks very well with that income level where we're seeing a lot of growth from the Rao's business coming. And I think we want to continue to focus on that. And you would have seen a new advertising campaign for Rao's that really focuses on our point of difference and quality, kind of our Italian roots and really what makes Rao's so different and so much worth that price point. And again, when you put it in the right context, I think it becomes very compelling as you would have seen in that. And I think that's something you're going to continue to hear us talk more about is really the power of Rao's being able to compete in different occasions across multiple income levels.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

Great. Thanks very much.

Operator: Our next question comes from Robert Moskow from TD Cowen. Please go ahead. Your line is open.

Robert Moskow

Analyst, TD Securities (USA) LLC

Q

Hi. Thank you for the question. And Mark, congratulations to you. Best wishes.

Mark A. Clouse

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

A

Thanks, Rob.

Robert Moskow

Analyst, TD Securities (USA) LLC

Q

One question on snacks. The margins were around 13.5% in the quarter, that's quite a bit lower than what I had expected, and I think what Campbell's expected, too. And I just want to know, with this environment for pricing being under pressure and costs – you seem to have some supply chain inflation that's a little bit higher than what I would have thought. Can you still hit your margin target for this year? I think there was like a 50-basis-point expectation for margin expansion. And maybe just longer term, I think we're all kind of concerned that the salty snacks category took prices too high during the pandemic and that there's a value correction – value equation correction that needs to be established going forward. So, how does that inform the 17% margin goal longer term? Thanks.

Mark A. Clouse

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

A

Yeah, great question, Rob. So, let me kind of flip the batting order if I could and I'll talk a little bit about the longer-term objectives. I think, the first thing I would say is that the road map that we've put in place as it relates to cost savings and variety of different areas, from route to market to network optimization, to improvement in mix as we continue to work down the partner brand number, all remain very much intact. And if anything, I would say that the team, under Chris' leadership – Chris Foley's leadership, has done a very nice job of continuing to not be satisfied in recognizing that we are in a competitive landscape, how do we continue to identify savings that can be utilized to ensure that we've got a bit of a buffer to manage the pressure that is in the marketplace today.

I would tell you on that broader question, too, of, hey, did snacks price too much or is there going to need to be a reset? I think, perhaps, the difference might – why it might feel a little bit that way is we were arguably able to walk back a lot of the promotional level during the COVID period and even in the period past that without a significant amount of elasticity, and I think that's a fact. I think as we've moved now and cycled several years past that, the reality is, and if you remember several years ago, I said this and it wasn't wonderfully received, but I think it's played out in a very similar fashion, which is this is a very competitive segment. And so, having a level of promotion that drives display remains a very important component of the snacks category. I think the good news for Campbell's is, where we primarily play are in elevated or added-value segments, and that's a place where we do not anticipate having significant recalibration in value.

As I said before, I do think we've got to be very mindful in watching our base pretzel and our base cookie business as it relates to private label and some of the price pressure that's there. But at the end of the day, I don't feel like we need a material change or structural change backwards. But what I do think is, we're going to continue to be appropriately plan to promote and to drive that impulse purchase so critical to snacking.

As we get to the nearer-term, maybe, Carrie, you can cover that a little bit and talk about this year because I think there'll be a little bit of discussion as well.

Carrie L. Anderson

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

A

Yeah. There are certainly reasons to believe in a second half margin improvement for snacks. And I think it's outlined with what I had answered earlier that that's applied for the total enterprise, but it also is applicable to the snacks division as well. In the second half, our expectation would be improving year-over-year volume trends are going to help the snacks division versus the first half. You're going to have improving snacks mix with a higher leadership brand mix and a lower impact of that partner and contract brands, and a lower impact of the Pop divestiture – well, the Pop Secret divestiture. You're going to have more neutral year-over-year net price and marketing impact in the second half, and that step-up in productivity and cost savings initiatives.

Remember, in our snacks business, we've got some announced restructuring in our Jefferson manufacturing plant, and we've got our ongoing DSD warehouse and route optimization. All of those things will continue to help us continue to get a pathway to 15%.

Mark A. Clouse

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

A

And I think we'll be – I think Q2's going to be a very helpful quarter to understand. I am encouraged by some of the more recent trends on share as it relates to snacking over the latest four weeks, and I think I want to see that continue to play out through the holiday season. And just remember, as important as the margin agenda is for us on snacking and very much committed to seeing that come to fruition, it's also about ensuring that the growth trajectory on snacks can be sustained as well. And that balancing act is one that we're going to continue to be very thoughtful about as we navigate through in the short term. Longer term, again, I continue to feel very good about how we're positioned and where snacks will be and where the margin trajectory can continue to grow to.

Robert Moskow

Analyst, TD Securities (USA) LLC

Q

Okay. Thanks so much, Mark. Take care.

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

Jim Salera

Analyst, Stephens, Inc.

Q

Good morning guys. And Mark, I just want to echo the congratulations. It's tough to find an industry that's more exciting than packaged food, but I think pro football categorizes as one.

Mark A. Clouse

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

A

[indiscernible] (00:54:26)

Jim Salera

Analyst, Stephens, Inc.

Q

I think – I wanted to just maybe follow up on some of the comments on snacking and correct me if I'm wrong here, but I believe that the level of volume sold on promo is still lower than pre-COVID. And given some of the industry category headwinds, rather, is the industry just taking kind of a, let's say, a more tactical approach on promo and then just being less broad based than in the past? And maybe if I can tack on a second part to that question, if the consumer does normalize throughout the year, do some of these price gap distinctions just become less important, and that's kind of what the industry is looking to?

Mark A. Clouse

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

A

Yeah, I think there is a couple things in there. I do again, I think the nature of promotion in snacking, I am not seeing anything that I feel is, out of line or inconsistent with what we would expect. I'm not seeing deep discounting, I'm not seeing unreasonable or unprecedented levels of promotion either. I think your point on the level of volume, I've been – we've been watching that closely and although I agree, I think it's moving up and as I expect through the year, we'll see some stabilization there. I think what's important to remember about the second half of our fiscal year is, you're going to begin to cycle where we really started to see the step back on snacking or the normalization of snacking occurring. And so, you're in Q3, our Q3, you're going to begin to compound the impact of what we saw as a more normalized level.

And again, I think it's important to note, although, we are not back to historical levels, we are back into positive territory as it relates to category trends. I mean, you see certainly a bifurcation between certain categories, and I think, again, when I look at our business and I get why people may say, well Campbell seems to see a little bit rosier outlook than some other businesses. But the reality of that is because we are, in essence, playing in some different categories. Although, we're in salty, we're really in natural organic tortilla, we're in Kettle chips, we're in the deli, we're in, maybe a little bit more balanced and a little bit more mainstream in pretzel, but we're playing in some categories that I think inherently are advantaged and doing a bit better. And like I said, as we get to the back half, we're going to begin to cycle that.

So, I think, again, I always hate to use comps as the reason why something may be going to get better, but I think in this particular case, as we get to Q3 and Q4, you're just going to simply have a lower base that you're beginning to cycle. Now, whether that gets us all the way back to that 3% to 4% we'd love to all see in snacking is not necessarily what we're expecting or what we're modeling but certainly sequential improvement is part of what's underpinning our expectations as we go into the back half.

Jim Salera

Analyst, Stephens, Inc.

Q

Great. And then if I could maybe sneak in a higher level question. In your prepared remarks, you talked about really strong momentum with Rao's with among millennial households. And that doesn't quite fit with maybe some of the broader narrative on, it's a very premium product and millennials tend to have a little bit less spending power than other groups. And so, are there any learnings that you can take from Rao's to apply to other parts of the portfolio where maybe you could have a premium or better for you, clean label value proposition that would drive consumer groups that would typically not spend on premium products to engage with different brands?

Mark A. Clouse

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

A

Yeah. And I don't want to sound flip it here with it with my response, but Rao's is a incredibly differentiated product, and the quality of the product and the experience of the product, it is just flat out better. And so, I think the fact that you've got, broad based acceleration across different households, including those that may be feeling a little bit more economic pressure, I think that conversation we had a little earlier on framing the occasions is really a great lesson, and I do think there is some application of that to other premium brands where we have a distinct benefit in quality. And so, as we talk about things like holiday entertaining or moments where it's important to bring the best quality or the highest quality to the table or to the occasion.

I think framing that in a way that allows those points of difference to be most recognizable for consumers in essence making it worth perhaps the premium price with the broader or mainstream segments is a great lesson, but I think it all begins and must have those true quality points of difference. And I'm not sure that's always the case in every premium price product, but certainly in Rao's, we feel that we have that point of difference, and I think consumers as they try it reinforce that. And so, I think there are some lessons learned, but I think the biggest lesson learned is, you got to make the experience worth it.

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

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