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# Campbell Soup Co. (CPB)

Q1 2023 Earnings Call

## CORPORATE PARTICIPANTS

### Rebecca Gardy

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### Mark A. Clouse

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

### Mick J. Beekhuizen

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

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### Andrew Lazar

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### Ken Goldman

*Analyst, JPMorgan Securities LLC*

### Peter T. Galbo

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Greetings, ladies and gentlemen, and welcome to the Campbell Soup Company First Quarter Fiscal 2023 Earnings Conference Call. At this time, all participants are in listen-only mode. After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] As a reminder, this conference call is being recorded.

It is now my pleasure to introduce your host, Rebecca Gardy, Chief Investor Relations Officer. You may begin your conference.

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### Rebecca Gardy

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

Good morning. And welcome to Campbell's first quarter fiscal year 2023 earnings conference call. I am Rebecca Gardy, Chief Investor Relations Officer at Campbell Soup Company. I am joined today by Mark Clouse, Campbell's President and Chief Executive Officer; and Mick Beekhuizen, Campbell's Chief Financial Officer and President of Meals & Beverages. Today's remarks have been prerecorded. Once we conclude our prepared remarks, we will transition to a live webcast Q&A session. The slide deck and today's earnings press release have been posted to the Investor Relations section of our website, campbellsoupcompany.com. Following the conclusion of the Q&A session, a replay of the webcast will be available at the same location followed by a transcript of the call within 24 hours.

On our call today, we will be making 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 or our SEC filings for a list of factors that could cause our actual results to vary materially from those anticipated in forward-looking statements. Because we use non-GAAP measures, we have provided a reconciliation of each of these measures to the most directly comparable GAAP measure in the appendix of this presentation.

On slide 4, you will see today's agenda. Mark will share his perspective on our first quarter results as well as in-market performance by division. Mick will discuss the financial results of the quarter in more detail and then review our guidance for the full year fiscal 2023. And with that, I'm pleased to turn the call over to Mark.

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## Mark A. Clouse

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

Thanks, Rebecca. Good morning, everyone, and thank you for joining our first quarter fiscal 2023 conference call. I hope you had a happy Thanksgiving and filled up on Green Bean Casserole, Pepperidge Farm stuffing and plenty of our delicious snacks and cookies.

As you read in our press release this morning, our fiscal year is off to a fast start. Our strong year-over-year performance across all three [ph] key metrics (02:40) reflects the continued strength of our portfolio and our successful efforts to substantially mitigate significant inflation through a combination of pricing and productivity improvements. I am also encouraged that we delivered those results while increasing investments in our brands and ensuring we remain at good value to consumers in this difficult economic time. We also made significant progress on market share versus the fourth quarter, growing or holding share in most of our categories year-over-year. We are very pleased that the combination of stronger supply, accelerating innovation and appropriate investment is translating into strong profitable share growth as we had planned.

Overall, Campbell's portfolio continues to demonstrate compelling consumer relevance and is well-positioned for the current economic environment. We recognize it's still early in our fiscal year and the environment does remain challenging, but given the strength of the first quarter performance, the health of our brands and our consistent execution, we've increased our guidance to reflect our current outlook. Mick will provide more details on the drivers shortly, but this quarter's results and the full year outlook demonstrate the significant progress we've made across our brands, supply chain, culture and capabilities. Although there remains more to do on the business as we continue unlocking our full growth potential, this quarter's results represent a positive milestone in our journey.

Organic net sales increased 15% to \$2.6 billion due to both inflation-driven pricing and strong consumer demand. While we did see some volume declines, it was partially mitigated by expected retail inventory recovery and a strong rebound in unmeasured channels, especially foodservice. Dollar consumption was up 10% in the quarter versus the prior year and 21% versus three years ago. As expected, we shipped ahead of consumption in the quarter as our supply chain execution and service levels continue to improve and retailers rebuild inventory levels. The improved supply also allowed us to significantly increase our marketing investment in both divisions as planned.

Turning to adjusted EBIT. Higher adjusted gross profit partially offset by higher marketing and selling expenses and higher adjusted other expenses resulted in a 15% increase in adjusted EBIT. The team has done an excellent job navigating inflation, leveraging a good balance of different tools. I also can see that our agility has improved in reacting to the volatile environment. As an example, we recently announced a very targeted Wave 4 pricing action on products where our input costs have gone up further. Adjusted earnings per share were \$1.02, also up 15% as

the flow-through of adjusted EBIT and lower weighted average diluted shares were partially offset by higher adjusted taxes.

I'm thrilled with our progress on dollar share. We grew or held share in most categories year-over-year and also grew share versus the prior quarter. In fact, 10 out of 15 of our key brands grew share in the quarter, some of which responded faster and more significantly than expected as inventory and support were added. Even in categories where we experienced modest share declines such as soup and pretzels, our share performance improved sequentially as planned. There is no question that the focus of our portfolio from a category and geographic perspective is a distinct advantage right now and is enabling us to effectively deploy investment and drive consistently strong execution.

Let's look at our divisions, starting with Meals & Beverages which delivered a strong first quarter with reported and organic net sales growth of 15%. In-market performance continues to show the underlying health of our portfolio with dollar consumption growing 8% over the prior year and up 17% versus three years ago. The recovery in our supply chain resulted in materially improved service levels, up over 18 points versus the prior year, enabling retailers to replenish inventory in the quarter and be well-positioned on supply heading into the critical holiday season. We also saw a marked recovery in our foodservice business as supply has also improved in this important channel.

Turning to slide 10. Our strong dollar consumption growth was across most of our Meals & Beverages portfolio as we are well-positioned within growing categories. The growth of our brands in key segments, namely ready-to-serve or RTS soups, Italian sauces, Mexican sauces, and select segments in our condensed soup well outpaced the growth of their respective categories.

Turning to slide 11. Our consumer insights show that consumers continue to cut back on out-of-home eating and are migrating from more expensive grocery categories as they seek ways to ease the impact of inflation. Consumers are making changes to stretch their budget. And following several years of becoming more confident and comfortable with cooking, they continue to turn to our categories and, importantly, our brands as evidenced by the continued growth of our Meals & Beverages business. With consumers preparing about 80% of meals from home, our brands are well-positioned for sustained growth, delivering consumers the quality, value, and convenience they seek for simple at-home meals and quick-scratch cooking. For example, our Spaghetti Carbonara recipe is a top performer year-over-year as it easily and economically feeds a family for about \$1.53 a serving.

Turning to slide 12. US soup net sales grew 11% over the prior year with gains in ready-to-serve, condensed, and broth. We continue to see a favorable net pricing benefit with dollar consumption up 5% partially offset by pricing-related volume declines. Elasticities remain below historical levels. And while our total dollar share of US soup declined, it was by less than 1 point. We had positive dollar share growth in the quarter in key strategic segments partially offset by competitive share losses to private label in total condensed and broth as expected. We continue to focus on price gaps and are adding equity support with meaningful innovation to maintain the strength of the category and our brands over the long run.

Chunky continued its positive momentum with dollar share up 1.6 points in the quarter coming from strong base velocities as we further recovered on shelf and 13% dollar consumption growth versus the prior year. This was the fifth consecutive quarter Chunky held or gained volume share, reflecting the powerful combination of a strong base business, highly relevant innovation, and increased investment in compelling advertising. Versus three years ago, Chunky grew dollar consumption by 26%. Our Chunky digital and social activations are seeing notable year-

over-year increases in engagement and our Lunchtime Is Your Halftime campaign is resonating particularly with younger consumers as we expand our reach through our NFL partnership and gaming via EA Madden.

Closing out the slide, Pacific has returned to growth as a result of restored supply and innovation with dollar consumption of Pacific RTS soup up 21% versus prior year and share grew by 0.4 points in the quarter. Pacific's growth is outpacing organic subsegments in the quarter and the launch of RTS cans is the leading contributor to the growth with millennial buyers up 16% versus prior year.

Turning to the next slide and our progress on building a \$1 billion sauce business. Prego continues to solidify our position as the branded dollar share leader in the Italian sauce category. Growth in the quarter was driven by both pricing and higher volume reflecting improved service versus a year ago. The brand had strong in-market dollar consumption of plus 21% and share growth of 1.1 points versus prior year. Pace also performed well with dollar share gains of 0.4 points, marking the third consecutive quarter of dollar share growth and increased dollar consumption of 16%.

Turning to Snacks. We had an impressive quarter as our brands rapidly responded to the recovery of supply and increased investment with accelerated top line growth and share improvement. The strong 15% top line growth which was fueled by our power brands reflected pricing actions offset by slight pricing-related volume declines. Sales growth exceeded dollar consumption of 13% versus prior year due to the replenishment of retailer inventory, which had been depleted in the prior year due to supply challenges.

As you'll see on the next slide, in-market dollar consumption in our power brands was up 15%, with six of eight brands growing double-digits. On a three-year basis, dollar consumption was up 28%, with all eight power brands growing double-digits and four of our five salty power brands growing over 30%. This also supports the historical learning that consumer snacking behavior is very resilient and relevant in tough economic environments.

Overall, six of our eight power brands grew dollar share in the first quarter, including Cape Cod, Snack Factory and Lance, each of which grew share by over 1 point. As we have recovered from significant supply constraints that began in the second quarter of fiscal 2022, we began to see sequential dollar share improvement quarter-to-quarter. Specifically, over the last four quarters, Goldfish gained 0.6 points, Snyder's of Hanover gained 3.5 points, Lance is up 4.8 points, and Pepperidge Farm cookies were up 0.4 points.

Our Snack brands are also highly differentiated against competition with positive velocity trends. In fact, on slide 16, you'll see that our brands are growing faster than their respective categories. And five out of seven power brand categories, including crackers, Kettle Chips, deli snacks, organic tortilla chips and sandwich crackers. Consumers continue to show their love for Goldfish and respond to the steps we've taken to broaden the appeal of this iconic brand. This is a remarkable growth story for one of our most important brands. We continue to deliver against our strategy to expand our consumer base with robust and relevant innovation and effective marketing that engages the entire family, not just younger kids.

In fact, for the third time in a row, Goldfish crackers were teens' most preferred snack brand according to Piper Sandler's Fall 2022 Taking Stock with Teens survey. Our Goldfish Dunkin' Pumpkin Spice crackers were the top turning new cracker item and leading pumpkin spice stacking item during the quarter. We've continued this momentum with a new partnership with Disney Marvel and our limited edition Black Panther: Wakanda Forever Goldfish, which hit the store shelves last month. And keep an eye out for the limited return of Goldfish Frank's RedHot crackers in the coming months. We also continued to win in salty snacks with dollar consumption and dollar share gains in Kettle Chips, Cape Cod, Snack Factory and Late July. Our Snack Factory pretzel crisps and

Snyder's of Hanover will have new holiday activations, inspiring new occasions and elevating every holiday snack tray.

And finally, I want to highlight Pepperidge Farm cookies. The holidays are their Super Bowl. And with supply back, we're able to return to full speed through the holidays. We've introduced new packaging designs across the portfolio from Milano to Chessmen and brought back holiday favorites like Linzer cookies. We also have newly limited edition Milano Hazelnut Hot Cocoa. And with the return of the Milano Fancy Santa activation, we hope to do our share in making the holidays a little more special.

In closing, I'm really pleased with our strong year-over-year performance and the fast start to the year. This is perhaps one of the most complete quarters we've delivered. We continue to build momentum and confidence with a powerful portfolio of brands in both divisions and the continued strength of our supply chain execution. We're recovering on share and driving growth in key categories. And with our portfolio focus, we are well-positioned for the current consumer and economic environment. Our innovation is resonating with consumers, driving more engagement, especially among younger households, and there's more to come. It's important to remember that there's still much to do on our business, and the environment does remain challenging. But being able to face those challenges off a stronger and more stable foundation is very encouraging and bodes well for the future.

Before turning it over to Mick, I want to comment on our recent management changes. As we announced in November, Mick has been appointed President, Meals & Beverages; and Chris Foley is now President of Snacks. Mick will continue to serve as Chief Financial Officer until a successor to this role is in place. The search is going very well and I look forward to updating you in the future. Both Mick and Chris have played a significant role in Campbell's transformation over the last several years by enhancing our culture and improving our business performance. I'm confident that they are the right leaders to continue to build our momentum and unlock our full growth potential.

In closing, I'd like to thank all of the Campbell's team for their hard work and wish all of them and you happy holidays. With that, over to Mick.

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## Mick J. Beekhuizen

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

Thanks, Mark, and good morning, everyone. We are pleased by the strong results we delivered in the first quarter with 15% growth across all three key metrics: net sales, adjusted EBIT and adjusted EPS. Top line growth was due to inflation-driven pricing, sustained brand health and improved supply chain execution, partially offset by modest volume declines.

First quarter net sales growth of 15% outpaced consumption growth due in part to retailer inventory rebuild as well as the strong recovery in our foodservice business. Strong sales growth, a relatively flat gross profit margin as cost inflation and unfavorable volume and mix were mostly mitigated by pricing and productivity improvements, combined with continued support of our brands and expected lower pension income, resulted in a 15% increase in adjusted EBIT. On a margin basis, adjusted EBIT was comparable to the prior year at 17.4%.

Adjusted EPS increased 15% to \$1.02 per share, driven primarily by the increase in adjusted EBIT, partially offset by a higher adjusted effective tax rate. Our cash flow from operations in the first quarter was \$227 million, which allowed us to continue to invest in the business while we returned over \$150 million to our shareholders through dividends and share repurchases. With Q1 results ahead of expectations and our strong confidence in the health and momentum of our brands and improved supply chain, we feel it's appropriate to raise our guidance. That said, let's first discuss our first quarter results versus prior year in more detail.

Net sales in the quarter, both reported and organic, increased 15%, driven by 16 points of inflation-driven pricing. This was partially offset by a 1 point volume and mix headwind. Promotional spending in the quarter was down 1% in Meals & Beverages and up 1% in Snacks and thus overall comparable to the prior year. As an aside, going forward, we will combine the impact of promotional spending with the impact of pricing in our quarterly earnings materials.

Turning to slide 22. Our first quarter adjusted gross profit margin decreased 30 basis points from 32.5% to 32.2%. Inflation and higher other supply chain costs had a negative impact of 1,260 basis points with the majority of the impact driven by continued cost inflation as overall input prices on a rate basis increased by approximately 18%, which were slightly higher than the fourth quarter of fiscal 2022. Additionally, unfavorable volume and mix had a negative impact of 150 basis points in the quarter. These factors were mostly mitigated by a higher net realized price, which drove an 1,140 basis point improvement, reflecting the impact of our inflation-driven pricing actions. In addition, our ongoing supply chain productivity and cost savings programs contributed 240 basis points to the adjusted gross profit margin.

In the first quarter, we continued our efforts to mitigate inflation, highlighted on the next page, through a combination of targeted price increases and trade optimization as well as supply chain productivity improvements, cost savings initiatives, and a continued focus on discretionary spending across the organization. As discussed during our previous earnings call, we expect cost inflation to continue throughout fiscal 2023. To mitigate the expected inflation, we are currently implementing selective additional pricing in both divisions, which should become effective in the second half of our fiscal year. We continue to focus on all other areas of inflation mitigation while we diligently protect the important value proposition for consumers.

Moving on to other operating items. Marketing and selling expenses increased 18% or \$31 million and represented approximately 7.8% of net sales versus 7.6% in the prior year. The primary drivers of higher marketing and selling expenses were higher advertising and consumer promotion expense, or A&C, which increased by 31% versus the moderated levels in the prior year, and higher selling expenses, partially offset by increased benefits from cost savings initiatives. Administrative expenses on an adjusted basis increased 1% to \$155 million due to higher general administrative costs and inflation, partially offset by lower expenses related to the settlement of certain legal claims. As a percentage of net sales, adjusted administrative expenses were 6%, a 90 basis point decrease compared to last year.

On slide 25, we are providing an adjusted EBIT bridge to summarize the key drivers of performance this quarter. As previously mentioned, adjusted EBIT increased 15% in the quarter primarily due to a 14% or \$102 million improvement in adjusted gross profit. While the increase in adjusted gross profit benefited adjusted EBIT, it was lower as a percentage of net sales, resulting in a 30 basis point decrease of our adjusted gross profit margin and a corresponding decrease of our adjusted EBIT margin. Marketing and selling expenses increased \$31 million versus the prior year and had a negative impact on our adjusted EBIT margin of 20 basis points. Adjusted administrative and R&D expenses were \$176 million, a 1% increase over prior year. This increase resulted in a 100 basis point contribution to the adjusted EBIT margin as these expenses were lower as a percentage of net sales versus prior year.

Adjusted other expenses of \$3 million compared to adjusted other income of \$7 million in the prior year had a negative adjusted EBIT margin impact of 40 basis points. This headwind is largely due to a reduction in pension and post-retirement benefit income compared to prior year. Our adjusted EBIT margin was in line with prior year at 17.4%. The following chart breaks down our adjusted EPS growth between operating performance and below the line items. Higher adjusted EBIT impact of \$0.16 was partially offset by a \$0.04 headwind of higher adjusted

taxes. Earnings per share also benefited from a reduction of the weighted average diluted shares outstanding. All-in, adjusted EPS increased year-over-year by 15% to \$1.02.

Turning to slide 27. Our Meals & Beverages division delivered a strong quarter with both reported and organic net sales increasing 15% versus prior year primarily due to increases in US retail product, including soup and Prego pasta sauces, as well as gains in our foodservice business. Inflation-driven pricing and sales allowances and lower levels of promotional spending were partially offset by volume declines. Sales of US soup increased 11% due to sales increases in ready-to-serve soups, condensed soups, and broth. Segment operating earnings in the quarter increased 18%. The increase was primarily driven by higher gross profit partially offset by higher marketing and selling expenses. Overall, within our Meals & Beverages division, first quarter operating margin increased year-over-year by 60 basis points to 22.7%.

On slide 28, reported and organic net sales in our Snacks division increased 15% driven by sales of power brands which were up 21%. Sales growth was driven by increases in cookies and crackers, primarily Goldfish crackers; and in salty snacks, primarily in Snyder's of Hanover pretzels and both Kettle Brand and Cape Cod potato chips. Inflation-driven pricing and sales allowances were partially offset by volume declines and increased promotional spending relative to moderated levels in the prior year quarter. Segment operating earnings in the quarter increased 20% primarily due to higher gross profit and lower administrative expenses partially offset by higher marketing and selling expenses. Overall, within our Snacks division, first quarter operating margin increased year-over-year by 50 basis points to 13.7%.

I'll now turn to our cash flow and liquidity. Fiscal 2023 cash flow from operations decreased 21% year-over-year to \$227 million primarily due to changes in working capital partially offset by higher cash earnings. Cash outflows from investing activities were reflective of the cash outlay for capital expenditures of \$77 million which was an increase from \$69 million in the previous year. Cash outflows from financing activities were \$127 million, including \$115 million of dividends paid and \$41 million of share repurchases. At the end of the first quarter, we had approximately \$375 million remaining under the current \$500 million strategic share repurchase program and approximately \$131 million remaining on our \$250 million anti-dilutive share repurchase program. We ended the quarter with cash and cash equivalents of \$130 million.

Before I turn to guidance, I wanted to touch on a few additional items. First, at the end of September, S&P Global upgraded our credit rating to BBB with a stable outlook. Secondly, on November 15, we raised a delayed draw term loan totaling up to \$500 million. We plan to use the proceeds of the loan to refinance our existing \$566 million notes maturing in March 2023. And lastly, on November 21, we entered into a 12-year renewable power purchase agreement with Enel North America to support our goal to reduce greenhouse gas emissions. Improving the sustainability of the agriculture and food value chain is important to Campbell and this agreement is a substantial step forward in meeting our science-based emissions reduction target.

With that, let's turn to slide 30. As previously mentioned, we are raising our financial guidance for the year given the strength of our first quarter performance, the health of our brands, and our consistent execution. For the full year, we now expect net sales, both organic and reported, to be plus 7% to plus 9%; adjusted EBIT of plus 2.5% to plus 6.5%; and adjusted EPS of plus 2% to plus 5% versus the fiscal 2022 results, resulting in fiscal 2023 adjusted EPS of \$2.90 to \$3. Lastly, as we mentioned on our fourth quarter call, our guidance reflects an approximate 3% headwind to adjusted EBIT and adjusted EPS from lower pension and postretirement income. All in, we're off to a great start to fiscal 2023 and are confident in our strategy and execution. As Mark mentioned, while we expect the environment to remain dynamic, our brand momentum remains strong as both supply and investment return to pre-pandemic levels.

I'd like to close by thanking all our teams for their commitment and wishing everyone a wonderful holiday season. And with that, let me turn it over to the operator to begin Q&A.

## QUESTION AND ANSWER SECTION

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

**Andrew Lazar**

*Analyst, Barclays Capital, Inc.*

Q

Great. Thanks very much. Good morning, everybody.

**Mark A. Clouse**

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

A

Hi Andrew. Good morning.

**Andrew Lazar**

*Analyst, Barclays Capital, Inc.*

Q

Hi there. To start off, I guess, last quarter, I think, Mark, you mentioned that you expected sequential improvement in gross margins as the year progressed. Given how much better gross margins came in in 1Q, I'm trying to get a sense of if that's still the case. And if so, if that would mean your full year gross margins could be better than the flattish outlook that you gave last quarter? So I'm basically trying to get a sense of just sort of the cadence over the next couple quarters in terms of the margin profile. And then I've got a quick follow-up.

**Mark A. Clouse**

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

A

Yeah, that's – yeah. No, I got – great question, Andrew. I guess, maybe let me start with a little bit of what was better in Q1 than perhaps we had expected. I think it really does begin with top line. We were stronger performance on the top line really driven by two things. I think the first was better in-market, lower elasticity than we had expected, paired with the marketing effectiveness. It's always a little bit tough to tease those two things out. But at the end of the day, that in-market performance share recovery was stronger and faster than we had expected. I think the second area is we continue to execute really well on the supply chain. And the recovery in supply was fast enough that it allowed us to accelerate availability both for that inventory that we had planned, but also you saw places like unmeasured channels growing even faster than we had anticipated. In particular, foodservice was very strong.

And as you drop that down into margin and you say, okay, top line better, what was different in the margin. As you know, when you get that top line going, there's a lot of positive effects throughout the P&L. And I do think, consistent with that, we saw greater efficiency. And again, I do think the execution across the company has been very strong as well, whether it was the execution of pricing or Wave 3, whether it was our supply chain. I think the combination of those elements were all very positive, and it did result in a better top line and a better margin than we had initially expected. I do think, as you look out then across the balance of the year, what we would continue to expect, I'm not making a broad balance of the year move in our elasticity assumptions. In fact, you would have heard Mick talk a little bit in his comments about some pockets of increases in inflation that are resulting in a Wave 4, although very targeted, still a bit more pricing that we're in the midst of executing right now. And so,

balancing that ongoing view of consumer resilience I think we're being pragmatic and not necessarily carrying that elasticity favorability through the year.

I think then if you start to say, okay, well, how does that kind of play out across the year. As you think about the next quarter, I think the two things you'll see that are going to be a little different than Q1 is you won't have the inventory recovery opportunity, and you probably will see a little bit of modest increase in promotional spend and the continued kind of investment in the year, and that might be a little different than what you saw in Q1. And then, of course, as you get to the back half of the year, you're beginning to lap the significant pricing from a year ago as well as some tougher comps to get through.

I think the net of this I just would say is that we are in Q1, this does remain a pretty volatile environment. I think we've tried to be appropriately pragmatic and looking at the balance of the year. But if you take our guidance versus where we were, it does imply – and I think a little bit of this is the Wave 4 pricing and inflation dynamic. If you take the midpoint of the two guidance ranges, we're about 20 bps actually lower in margin assumption for the year. And that is a little bit reflective of the dynamics that I just explained. But like I said, it's very early in the year. And I think the good news is we feel great about starting really on our front foot and the things that we can control, we really saw positive performance across those variables in the Q1. And that certainly does give us greater confidence heading into the balance of the year based on where we are today.

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**Andrew Lazar**

*Analyst, Barclays Capital, Inc.*

Q

Great. Thanks so much.

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

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**Ken Goldman**

*Analyst, JPMorgan Securities LLC*

Q

Hi. Thank you. Good morning.

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**Mark A. Clouse**

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

A

Hey Ken.

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**Ken Goldman**

*Analyst, JPMorgan Securities LLC*

Q

Hi. We've seen some of your competitors in soup and broth be maybe a bit more aggressive with pricing on shelf lately. I'm just curious, is there anything you're seeing that's surprising in terms of competitive levels in these categories. And as we head into 2Q, are you hearing anything or seeing anything that would suggest that, as you get more promotional as well, which you mentioned, that maybe your competitors will do the same or step it up even more?

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**Mark A. Clouse**

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

A

Yeah. I would say, first off, just to kind of make sure I appropriately caveat this. Everything that we're doing as it relates to an investment side, especially on the promotional side, would be very responsive to the marketplace, very modest in the sense of it being quite normal and just kind of how supply has recovered. This is not a overly

aggressive stance or one that we're trying necessarily to distort a position as it relates to share or market because we don't really need it. I think the reality is, is that the combination of the marketing, innovation and what we're doing on the brands have been very effective. And again, with my druthers, I'd rather be supporting the equity side. But at the end of the day, it's important that we stay very vigilant on the price gaps.

And so, everything that we're doing is really about watching where those price gaps are and how we feel about the value proposition. I think what's been really impressive across our portfolio is that although we're watching and seeing consumers change behavior in how they're purchasing and which categories they're migrating into, this has been very, very helpful in the sense of getting the relevancy of our brands continuing to remain quite high. And so I think, as we look forward, I'm not seeing anything that would suggest that our pricing would be overly aggressive or necessarily conservative. And I think that's the way we want to be and that's where we want to be balanced.

I think you mentioned soup, obviously, in places where we're seeing more private label pressure, we want to make sure that we're especially vigilant there in keeping those price gaps reasonable. And I think, right now, we're exactly where we expected to be on the soup business, actually a little bit better as we continue to see just tremendous momentum on our ready-to-serve side with both Chunky and the introduction of Pacific Canned ready-to-serve soup has done very, very well. So, probably a little bit ahead there, but on the condensed and broth side, very much in line with our expectations.

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**Ken Goldman**

*Analyst, JPMorgan Securities LLC*

Q

Great. Thank you.

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

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**Peter T. Galbo**

*Analyst, BofA Securities, Inc.*

Q

Hey guys. Good morning. Mark, I was actually kind of hoping to circle back on the guidance a little bit. Are you largely caught up now on the shipment inventory replenishment? Should we kind of expect a shipment relative to consumption to be a lot closer, obviously, versus, I think the 700 basis point spread that you saw in Meals in the first quarter? And then I just have a quick follow-up.

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**Mark A. Clouse**

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

A

Yes. I think we're pretty caught up. If we think about what we expected, as I said, I think – if you remember, we talked a little bit about the unmeasured channels and a little bit of lagging there. I do feel really good. And again, you see that in the 500 basis point delta between our net sales and our consumption that really does reflect some of the – both the inventory recovery in retail, but also those unmeasured channels recovering. And I think, as I look forward, I would expect us to be closer and much more in line between consumption and sales as we go forward.

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**Peter T. Galbo**

*Analyst, BofA Securities, Inc.*

Q

Got it. That's helpful. And then just back on Andrew's question around the gross margin. I think you said the implied math is that your margins are 20 basis points lower maybe than the flattish from before. A, I just want to

make sure that that was what you said; and B, that that was a gross margin comment, not an operating margin comment. Thanks very much.

**Mark A. Clouse**

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

A

Yeah. It's more a operating margin discussion, right. If you take the implied math of our EBIT and our top line evolution in the guidance, it nets to about a 20 bp EBIT difference. And again, I would say that, as we look at the year, I would suspect that what I would be thinking about for margin is some of the drivers that I discussed probably putting a little bit of pressure on that through the year.

Mick, do you want to give a little perspective?

**Mick J. Beekhuizen**

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

A

Yeah. Maybe the other kind of piece to your question, when you look at the 20 basis points of reference, that's really the change versus the previous guidance.

**Mark A. Clouse**

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

A

Guidance, yeah, not versus a year ago.

**Mick J. Beekhuizen**

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

A

Yeah. Not versus a year ago. So, you do see – I mean, as we already described last time around, there was a little bit of that margin pressure year-over-year in the mid-level of our guidance range and you basically have a little bit more of that reflected in the updated guidance.

**Peter T. Galbo**

*Analyst, BofA Securities, Inc.*

Q

Great. Thanks.

**Mark A. Clouse**

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

A

These aren't significant numbers but, yeah, some pressure.

**Operator:** Your next question comes from the line of Jason English from Goldman Sachs. Your line is open.

**Jason English**

*Analyst, Goldman Sachs & Co. LLC*

Q

Hey good morning, folks. Thanks for slotting me in.

**Mark A. Clouse**

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

A

Hey Jason.

**Jason English**

*Analyst, Goldman Sachs & Co. LLC*

Q

Hi there. Couple of quick questions. First, can you remind us how big foodservice is as a percentage of sales in your Meals & Beverages division and give us a little more color on how robust the growth was this quarter?

**Mick J. Beekhuizen**

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

A

Yeah. Jason, I'd say mid-single-digits as a percentage of overall net sales for the enterprise.

**Mark A. Clouse**

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

A

And it was up about 40%?

**Mick J. Beekhuizen**

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

A

45% or so.

**Mark A. Clouse**

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

A

Yeah, 45%.

**Mick J. Beekhuizen**

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

A

So significant. And I think if you kind of – right now, in Q1, it was in and around 6% of the overall enterprise.

**Mark A. Clouse**

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

A

Yeah. I think one of the things to keep in mind on that number, Jason, is it was one of the harder hit when we were rationalizing supply a year ago. It was perhaps one of the places that felt that the most significantly. So, although I would say we are seeing increase in demand, the biggest driver of that recovery is really the recovery of supply.

**Jason English**

*Analyst, Goldman Sachs & Co. LLC*

Q

Got it. That's helpful. In context of that, you said we should expect consumption sales to be tracking reasonably close. With that type of robust growth, shouldn't we actually expect your reported results to be outstripping what we see in measured retail sales data going forward?

**Mark A. Clouse**

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

A

Yeah. I do think there'll be some delta there. But as it relates to retail in particular, I think those two things will be close. I do think your overall net sales will get a little bit of bump as foodservice and some of the other unmeasured channels recover. However, I don't think you'll see this kind of difference because as we did start to stabilize supply, you see kind of a steady recovery. So, although I agree with you, some delta, not as significant as this quarter.

**Jason English**

*Analyst, Goldman Sachs & Co. LLC*

Q

Got it. Makes sense. And one more, if I can, on inflation. Most companies are seeing the level of year-on-year inflation, if not stabilize, generally begin to moderate. You're going the other way with the acceleration here quarter-on-quarter. What is driving that?

**Mark A. Clouse**

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

A

Yeah. Mick, why don't you cover that?

**Mick J. Beekhuizen**

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

A

Yeah.

**Mark A. Clouse**

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

A

Three areas really.

**Mick J. Beekhuizen**

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

A

So, Jason, when you think about our overall inflation for the year, we're seeing a very similar dynamic what you're describing, right? Just it is low-teens inflation year-over-year for the full year. However, I mean, basically that Q1 number was as expected, the 18%, because as you might recall, when we spoke about kind of our outlook for the full year, we're expecting double-digit inflation in the first half but then we cut over into the new calendar year and certain contracts reset; and of course then you start to comp also higher inflation levels from this past year; and then in the second half of the year as a result, we expect more in the call it high single-digit type of inflation. So, it's really call it a little bit a first half versus second half story, first half still continued double-digit inflation you saw in Q1. However, then in the second half you start to see that inflation is starting to moderate, however still inflationary.

**Mark A. Clouse**

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

A

Yeah. And I think the places where we saw deltas are really in the protein, resin areas and a little bit of this at times like for example in steel, we might have expected a little bit faster walk down in prices that may not have materialized at the same level. And so, part of what we're reacting to is a little bit of the change in outlook for the cost relative to what we talked about for Wave 4 pricing. And again, it's a very targeted pricing action in particular to certain areas where you may have experienced some of that pressure.

**Mick J. Beekhuizen**

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

A

Yeah. And the dynamic that Mark is describing between, on the one hand, the pricing but also a little bit additional pressure on that inflation around whether it's steel and protein, that's really a second half dynamic.

**Mark A. Clouse**

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

A

Yeah.

**Jason English**

*Analyst, Goldman Sachs & Co. LLC*

Thank you, all really helpful. Congrats on the good start to the year. I'll pass it on.

Q

**Mark A. Clouse**

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

Thanks.

A

**Operator:** Your next question comes from the line of Chris Growe from Stifel. Your line is open.

**Christopher R. Growe**

*Analyst, Stifel, Nicolaus & Co., Inc.*

Hi. Good morning.

Q

**Mark A. Clouse**

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

Hey, Chris.

A

**Mick J. Beekhuizen**

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

Good morning.

A

**Christopher R. Growe**

*Analyst, Stifel, Nicolaus & Co., Inc.*

Hi. My first question was just in relation to the wave of pricing you've taken. Have you said how much that is? And I thought it'd be just good to hear how those conversations are going with retailers as we near the end of this incremental inflation. Is there any change in the tenor, if you will, in those discussions with retailers?

Q

**Mark A. Clouse**

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

Yeah. So, it is a much more targeted action, probably low single digits overall. I would say that as we've navigated through this last couple years of elevated inflation, the level of transparency and almost the mechanical nature of understanding the validity of pricing actions has become a muscle that has really been built well I think on both sides of the table. So, it's really much more about the dialogue of where are our costs, how do those reflect what we're suggesting on price. So I do think we are in a moment now where this is more the tail end and thus then ensuring that everything that we're doing is really clear and transparent, rationalized by the costs that we're dealing with. But I think when that happens, it's relatively constructive and the conversations kind of move forward, I would say, in a very almost mechanical way.

A

I do think that the sensitivity around ensuring that we're doing everything possible to support the brands and the categories we're in, maintaining affordability for consumers in this tough environment is certainly top of mind for both us and the retailer as we work together. And so, we're quite conscious of those dynamics and ensuring that we're making the right strategic choices for the business for the long term.

**Christopher R. Growe**

*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

That's great. I'm sure the increase in marketing helps a lot in communicating that to the retailer, so that's great.

**Mark A. Clouse**

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

A

Yeah.

**Christopher R. Growe**

*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

I had just one follow-up which is – so you're starting to lap some pricing from the prior year and you have a little bit more pricing coming through sequentially as well, so I just want to get a sense on like the pricing contribution in that pricing versus cost inflation. Is that a similar dynamic in 2Q as it was in 1Q in rough terms?

**Mark A. Clouse**

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

A

Yeah. So I think it will be closer in Q2. I do think you might see a little bit more promotional spend in Q2 than Q1, again, all within a very reasonable range. It's really then the back half where you start to see the significant impact of a year ago pricing. And incremental contribution from pricing would be significantly lower as we get into Q3 and Q4.

**Christopher R. Growe**

*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

That's great. Thanks so much for your time today.

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

**Michael S. Lavery**

*Analyst, Piper Sandler & Co.*

Q

Thank you. Good morning.

**Mark A. Clouse**

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

A

Hey Michael.

**Michael S. Lavery**

*Analyst, Piper Sandler & Co.*

Q

Just about a year ago, you set your 17% margin target for Snacks by 2025. But obviously, with just the environment being a little bit more difficult than we might have imagined then and just the margin outlook for this year and what last year looked like, can you just give us an update of how much that might be on track or what might be needed to get there?

**Mark A. Clouse**

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

A

Yeah. That's a good question. Let me start with the elements of the strategy of our margin roadmap on Snacks are very much intact. And so, the ability for us to see the progress on the initiatives that we had as part of that, whether it was the completion of the original value capture or the next wave of opportunity that we've seen relative to network route to market are all very much on track and in line.

I will also say further to that that the top line performance continues to be very, very strong. And as we all know, at the end of the day, on Snacks, growth is really and has been the top priority for that division from the beginning. But I think the good news is all the things that we expected to be delivering, we're delivering. I think what we can't predict exactly right now is how the environment will evolve over time. There's no question that the combination of both inflation and some of the costs associated in the supply chain relative to COVID and all of the things that we've been navigating over these last couple years, how that comes off as we go forward and the environment begins to normalize.

We talked in the past, if I were to kind of put a, let's call it, a rough framework around it, I think there's probably a couple hundred basis points of just what I would call environmental overhang that I do expect us to be able to improve by. So, when I think about longer term on the business, I still remain very confident that that margin objective and goal is in place. I think we just need to see how the environment unfolds to put a better qualification on timing. But I think the good news is the elements that we need to see progressing, we are seeing progress.

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**Michael S. Lavery**

*Analyst, Piper Sandler & Co.*

Q

Okay. That's helpful. And maybe just on sauces, you also touched at the Investor Day on a potential new sauce brand either organically or M&A as part of the path to \$1 billion. Is that still part of your thinking? And can you give any latest on how that might unfold?

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**Mark A. Clouse**

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

A

Yeah. I mean, we continue to be very bullish on the sauces area. This is a place that, quite frankly, before COVID was growing very well and certainly has continued through the pandemic and even in this moment of economic pressure, we continue to see a very high degree of relevance in that space. And when you look at our portfolio and sauces and you say, okay, where are the opportunity areas or the white spaces, I do continue to believe that there is opportunity at different price points. And I also think that in adjacent segments, there's opportunity as well. And I do think as you see our strategy kind of unfold over time, you'll continue to see us both driving that base business aggressively while adding strategically kind of either small tuck-in acquisitions or some perhaps organic develop new items to complement, not unlike what we're doing with FlavorUp! and the relaunch of sauces, which again, very early in a different model of launching but at the end of the day, continuing to build out.

One thing I'll just mention that's quite interesting in this moment where economic pressure is putting barriers to away-from-home eating a little bit more. What's been very interesting is younger consumers have been one of the bigger sources of migration back into in-home cooking as their confidence and capability through COVID was established or built. You see them returning to that area. And so, our opportunity of continuing to kind of arm them with new products or also innovation as it relates to recipe or usage is very much a focus of our strategy, one that's working very well at this moment and one we would expect to continue to do both through innovation as well as the marketing side.

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**Michael S. Lavery**

*Analyst, Piper Sandler & Co.*

Q

Okay. Great. Thanks so much.

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

**Robert Moskow**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Hey thank you. I thought I remember, three months ago, Mark, you've given guidance for a 2% headwind from promotional spending for the full year. And this quarter is a zero. Are you pushing out some of the spending into the future quarters or do you think the promo headwind will be less than you originally expected?

**Mark A. Clouse**

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

A

I think, Rob, certainly, in Q1, I think – as I said, I think the execution and the growth certainly supported a lower rate than that. And I think, as you look forward, I've not made a big adjustment to any out-quarter outlook. I think, again, as we navigate through this environment, we're trying to make sure we stay as pragmatic as we can. And as I think about it, what are the things that we're watching very closely, it does revolve around that consumer resilience and the continued overall value proposition. And so, I haven't changed much of the outlook for the balance of the year, but I would acknowledge Q1 certainly was better than I might have originally expected.

**Robert Moskow**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Okay. Can you help me understand – like, what made it better, do you think? Was it that...?

**Mark A. Clouse**

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

A

Well, I mean, one, the top line was better, and that helps. I think also as you go through, as you might remember, we were in the midst of executing a fairly significant Wave 3 pricing. And I think as you kind of go through that process, you've always got assumptions that, as you execute, you may need a little less promotion in one area, maybe a little bit more effective in another area, competition or price gaps may be a little different than what you anticipated. And so, there's always a bit of agility that goes into this. And actually, this is a muscle that I would say historically may not have been as strong as it is today. And so, kind of making some of those decisions in real time is very much an important part of the tool bag right now. And so, I think that combination of elements really kind of led to what I would say is a better kind of on paper, if you will, lower bps of spending than what we might have anticipated.

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

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