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The Campbell's Co. (CPB)

Barclays Global Consumer Staples Conference

CORPORATE PARTICIPANTS

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

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

OTHER PARTICIPANTS

Andrew Lazar
Analyst, Barclays Capital, Inc.

MANAGEMENT DISCUSSION SECTION

Andrew Lazar
Analyst, Barclays Capital, Inc.

We're good to go.

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

Good.

Andrew Lazar
Analyst, Barclays Capital, Inc.

Perfect. Welcome back, everybody. Thanks so much for joining us. And welcome back for our fireside chat with The Campbell's Company. With us today are President and CEO, Mick Beekhuizen; and CFO, Todd Cunfer. Welcome to you, both.

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

Thank you.

Andrew Lazar
Analyst, Barclays Capital, Inc.

Thanks for being here.

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

Thank you for having us.

QUESTION AND ANSWER SECTION

Andrew Lazar
Analyst, Barclays Capital, Inc.

Q

Maybe, Mick, we start with you. Perhaps, it makes sense to start by maybe taking a step back a little bit. Over the past several years, Campbell's navigated a meaningful amount of volatility. Company's also experienced some persistent volume pressure, particularly within Snacks, significant margin compression, and rising balance sheet constraints that ultimately culminated in a series of difficult decisions announced last week, including a dividend reduction, substantially larger cost savings program, plant closures, additional pricing, and a more concentrated approach to investment. I guess, from your perspective, what happened over the past several years that sort of brought the company to this point? And what are the most important lessons that inform the strategy you're sort of putting in place currently?

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

A

Yeah. So, maybe kind of stepping back, first of all, with where we're at right now and when you look at how do we got here. So, the consumer really evolved over the past years, and you see that play out across our portfolio. If I look, for instance, on the Snacks side, you see we are operating in categories that are maybe growing currently about 1 percentage point or so. They were growing close to 4 or 5 percentage points in the past. Consumer has not only increased their focus on the value side. It has also become very intentional with their purchases, and that's what you really see play out on the snacking side.

So, then maybe on the Meals & Beverage side, there's a little bit like a contrary trend going on where, again, back to that focus on value intentionality. And with that, at-home cooking is a continuous trend. And you heard us talk about it on the earnings call as well. And that's a trend where actually Meals & Beverage portfolio is benefiting from. We obviously, on the one end, have that with brands that are within the broth category, but at the same time also Rao's continues to benefit from that. So, we refer to that more broadly as semi-scratch cooking, and semi-scratch cooking is a trend that is working.

What does that mean for me and how does that really influence our, call it like, broader strategic choice, which is, first of all, we need to make sure that we're very close to the consumer, really think about what or really look at what does the consumer want, what does the consumer need, and making sure that we pull that through in each of our brands. And when we are activating or when we're supporting our brands, that we obviously connect that consumer need. But at the same time also when we're doing that with innovation, and I'm sure we'll talk more about that aspect.

And that goes back to Snacks. A good example of that is Goldfish. The core household with families is what we need to focus on. That's an area where Goldfish needs to win and that is also where Goldfish has a right to win. So, that means with brand activation like The Snack That Smiles Back!, as well as with some of the innovation that we're currently working on with better-for-you a Gluten-Free Goldfish, plays right within that space. Then, at the same time, on the Meals & Beverage side, what else can we do with semi-scratch cooking as the consumer continues to focus on that.

What does that mean for us from an innovation perspective or even how can we further accentuate other parts of our portfolio, not only during the holiday period, but also doing everyday cooking? I'd say so lessons learned. It is really back to focus on the consumer. There's no silver bullet. We need to make sure that we are focused on everyday great execution, and we need to support our brands with marketing as well as innovation in the area where the consumer really wants to be.

Andrew Lazar
Analyst, Barclays Capital, Inc.

Q

You described current results as unacceptable and emphasized that Campbell's no longer waiting for the environment to improve around it. I guess, as investors assess the sort of the reset, what's fundamentally different about the way Campbell will operate going forward versus simply doing more of the same things, maybe with greater urgency? And where do you think the organization had been, either too slow or insufficiently focused or maybe lacking the capabilities needed to respond to this rapidly changing consumer environment?

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

A

Yeah. First of all, it all starts with the team. It starts with the people and making sure that we have great people in all the different areas. I've made very conscious choices in and around my leadership team. We have a couple of great leaders that are waking up every day on the commercial side to drive the businesses. But they are also building teams underneath them again that are doing the same. What does that mean is we – when I was President of Meals & Beverage, I put in place a category model.

So, when I was the President, I made sure that I had individual leaders, general managers that were leading each of the different businesses within the Meals & Beverages portfolio. They wake up every day with a cross-functional team. They have to drive that category, and at the same time also have full P&L responsibility. We implemented that same structure this past year in Snacks. So, now we have one consistent operating model across the organization.

At the same time, we built our Growth Office in order to make sure that we take advantage of scaled commercial capabilities across the organization. These are not capabilities that are new to CPG. However, they are opportunities for us as a Campbell's organization. So, it is, for instance, revenue growth management. You heard us talk a little bit about that on the earnings call as well. It's a capability that has been around for CPG. However, this is an opportunity for us at Campbell's in order to make sure that we utilize and build – or built and utilize that capability across the organization. So, we are building those type of capabilities within the Growth Office. So, it's people, structure, call it like accountability.

Then, the other piece that I mentioned earlier is a relentless focus on the consumer and making sure that the consumer is front and center. Again, nothing new. I know CPG. The C stands for consumer, check. That is nothing new for the industry. However, we need to make sure that we live into that as an organization and then we shouldn't get too enamored by the innovation, but we should make sure that it truly fulfills the consumer needs. And that's why we are enthusiastic about it. So, the way that we are thinking about it is much more about, hey, identify these consumer insights and then rapidly turn them into relevant food and brands.

And that then also comes back to our brands and our brand support. We have a portfolio of, call it, like 16 leadership brands, as we've talked about in the past. That is a relatively big portfolio. There are – not every opportunity to cross the portfolio is equally weighted. So, as a result, we're making very conscious choices about where do we have a real right to win, how are we going to be able to grow, and as a result, allocate resources accordingly. A good example of that, for instance, with Goldfish, we need to grow, we need to win. And as a result, that's a brand that we're putting the appropriate amount of resource behind it.

Andrew Lazar
Analyst, Barclays Capital, Inc.

Q

The fiscal 2027 outlook understandably reflects a difficult transition year. Organic sales expect to decline between 2% and 4%, EBIT down 7% to 12%, and EPS down about 17% to 24%. I guess, what milestones would give you confidence that the business has moved from restructuring and stabilization back towards sustainable value creation?

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

A

Yeah. You want to...

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

A

Sure, I'll take that one.

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

A

Yeah, please.

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

A

Yeah. So, look, I think the biggest factor for me is our ability to stabilize and grow gross margin. So, the way it's going to sequence out for the year, Q1 is going to be very difficult. We have no pricing impact. We actually have some pricing investments. We're going to have some deleverage in our P&L from Snacks declines. So, Q1 is going to be tough. Q2 gross margin, we're going to – as the pricing kicks in and some of the cost savings initiatives start to build, Q2 gross margin will still be down, but it'll be – get a lot better.

In the second half, we anticipate gross margins will actually expand. That is the key to me to a healthy business that we can start to invest and to grow behind. And if we can end the year with gross margin expansion, that sets us up really well for FY 2028, where we can invest in our businesses and start to grow the top line. So, to me, the biggest, to your question, gross margin stabilization and then expansion is probably the best thing to watch throughout the year.

Andrew Lazar
Analyst, Barclays Capital, Inc.

Q

Got it. Snacks organic sales declined about 6% in the fiscal fourth quarter, with consumption down about 5%, while segment operating earnings decline about 34%. If we fast forward 12 months, what needs to be different for you to conclude that the turnaround's working? Should investors primarily focus on improving consumption, stabilization of market share, better execution, or recovery in the segment's margin structure, yeah?

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

A

I look at it more as – yeah. So, Q1 just continuing to be a challenge from an overall revenue perspective on Snacks, and we've talked about that. However, going forward, sequential progress, particularly sequential progress within consumption and over time stronger performance from a market share perspective. However, within Snacks, that all doesn't come at the same time. When you look at our overall portfolio, I mentioned Goldfish earlier. I'm encouraged by what we're seeing right now within Goldfish and the work that we're doing, particularly in and around the core.

So, as a result, I feel more confident around the progress in and around Goldfish. We're making good progress in and around Pepperidge Farm that is within the fresh bakery side as well as on the cookie side. However, that's going to be probably a little bit more choppy. And then, on the salty side, we have a little bit more work to do. So, I do expect, although we're working on all these different pieces, I do expect sooner progress on Goldfish versus some of the other pieces.

Andrew Lazar
Analyst, Barclays Capital, Inc.

Q

Company's implementing an average pricing of roughly 4% to 5% across approximately 60% of the portfolio at a time when some competitors may choose not to follow and the consumer remains pressured. How did you determine where the brands have sufficient pricing power and what makes you comfortable that protecting profitability through price is preferable to defending near-term volume and share in those parts of the portfolio?

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

A

Sure. So, again, on average, a fairly modest price increase around 2.5% to 3% across the entire portfolio. So, not the three or four years ago, when people were taking double-digit price increases across the board. But the pricing action, though modest, was kind of the last lever we had. We really spoke with all the inflation, which is very significant, the number one priority was to have as many cost efficiencies and savings programs, whether it's up in the plants or it's down in SG&A to offset that inflation.

Unfortunately, that was not enough given the extreme amount of inflation that we are seeing right now. So, we had to take some pricing actions. It was very thoughtful. It was a very detailed analysis of what categories, what brands we thought we had the most ability to take some pricing on, whether key components were how much private label is there, where are the price gaps, how – where is our competitive stance within that category?

So, again, a very detailed analysis of where we thought we had the best ability to take pricing. We were also, I think, cautiously prudent on the elasticity assumption. Usually, in my former life, [ph] 1 to 1 (00:20:28) was kind of a typical elasticity, and even during the pandemic was even less than that. So, we assumed a [ph] 1.5 (00:20:34) elasticity. Some were higher, some were lower. But I think that put us in a pretty safe spot from a planning stance that we could go execute that and potentially have a little bit of upside to that. So, again, not an easy decision to take price, but just given the structure of the P&L and my earlier comments around the importance of gross margin, it was necessary to price.

Andrew Lazar
Analyst, Barclays Capital, Inc.

Q

And thinking about the elasticity assumption, how much of the higher elasticity do you think reflects pressure on the consumer versus Campbell's current sort of competitive position? And how should investors think about the potential for elasticity to vary between, call it, Meals & Beverages versus Snacks or between stronger brands and those that sort of require more work?

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

A

Yeah. So as I said earlier, [ph] 1.5 (00:21:21) is the average. But the way we modeled it, some were higher and some were lower. We pretty much assumed we obviously have no clue what our competitors are going to do. So, again, to be conservative, we pretty much assumed that people would not immediately follow our pricing actions, and we'd be kind of out there a little bit alone. Again, the price increases are not significant, but any price increase has an impact on where you are in the marketplace. So, again, with the higher elasticity, we assumed we're kind of out there on our own.

Look, we do think the consumer is not as in a healthy place as they were four, five years ago, where there was a lot more cash coming out of the pandemic. People had a little more savings in their bank account. So, the consumer is pressured. So, some of it is clearly that. Some of it is, again, our assumption that not everyone is going to take those same actions as we do, and hopefully, we'll do better than the way we've modeled it.

Andrew Lazar
Analyst, Barclays Capital, Inc.

Q

Your 2027 guidance assumes underlying consumption remains broadly consistent with recent trends. Approximately, call it, 5% to 6% raw material and packaging inflation, double-digit logistics inflation, and volume elasticity as we talked about. How would you characterize the degree of flexibility or cushion embedded in the outlook? And sort of which assumptions do you believe are most likely to determine whether results land towards the higher or sort of lower end of the range?

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

A

Yeah. Look, I think we are very comfortable with the guidance that we gave. There's two huge variables at play. One is second half inflation, and where is oil? How does the Iran conflict settle or not settle? So, there's a little bit of a variability in the second half, plus or minus around inflation. We've built in what we think is a cushion. But given this environment, you never know. And the second one is the rate of recovery on Snacks. We have not built in much of a recovery on Snacks. So, if that goes better than we have planned, there is upside to the $1.65 to $1.80. I mean, that would get you at the higher end of the range that we've mentioned. If the recovery is not as quick or stalls, that's the other key variable. So, again, inflation, Snacks recovery, those are the two big variables out there.

Andrew Lazar
Analyst, Barclays Capital, Inc.

Q

Got it. And then, in terms of phasing, as we talked a little bit about it before, a lot of moving pieces this coming fiscal year with negative price realization, elevated commercial investment, and significant inflation weighing on the first quarter followed by pricing beginning in the second quarter, productivity and cost savings becoming more meaningful in the second half. Maybe you can level set investors on sort of the expected quarterly progression as we think about organic sales, gross margin, and EPS and sort of what needs to materialize to deliver the anticipated improvement as the year progresses.

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

A

Sure, yeah. So, as we laid out last week, Q1's going to be tough. Snack volumes are going to be sharply down. We don't have any pricing kicking in yet, so that will not kick in until Q2. And in fact, as you mentioned, we're actually making some pricing investments primarily on the Meals area of our business, and that is really driven around execution around the key holiday period. We feel great about those investments, but they come at a cost. We think they're going to drive a lot of volume. We think you're going to see some nice consumption increases on the Meals business as we get into Q2 when that consumption actually hits around the holiday period, but that does come at a cost.

And so, as we get in – so, Q1 is going to be a tough quarter. Q2 will get progressively better as the pricing kicks in as some of the cost savings initiatives start to build. They will build sequentially bigger and bigger each quarter as we go through. And as I said earlier in the second half, we are expecting gross margin expansion after a tough first half. And in fact, in Q4, as that continues to build, we actually think will be EPS positive in Q4. If we can do that, we – I think we're going to have a successful end to the year and it again sets us up really nicely for the following year.

Andrew Lazar
Analyst, Barclays Capital, Inc.
Q

The new $500 million cost saving program runs through fiscal 2030, approximately $150 million rolling over from the previous program and about $350 million representing incremental identified savings.

Todd E. Cunfer
Executive Vice President & Chief Financial Officer, The Campbell's Co.
A

Yeah.

Andrew Lazar
Analyst, Barclays Capital, Inc.
Q

Maybe you can break down the incremental opportunity for us across sort of head count and overhead, direct and indirect procurement, manufacturing and network optimization, and some other areas. And I guess, which are the elements that carry the greatest execution risk?

Todd E. Cunfer
Executive Vice President & Chief Financial Officer, The Campbell's Co.
A

Yeah. So, as you said, our old PEAK program, which went through fiscal year 2028, still had $150 million left on it. That was a very identified $150 million that we're going to go get. We rolled that over into a bigger, longer program through fiscal 2030 for a total of $500 million. So, as you said, an incremental $350 million. The biggest incremental pieces to where we were before is, as you know, we've announced a number of head count reductions, both an early retirement program and some involuntary cuts. Those are in place. Those are done. So, those were locked and loaded. We just launched a very substantial procurement savings project, both direct and indirect. Literally, every line item on the P&L will be tackled. We have a couple of consulting partners who have done this with other major companies and have done this extremely well.

So, we have very clear visibility to what that looks like. So, we feel very good about that. And then, in the outer years, that's tougher to quantify at this point, but we're very confident we'll get there. There's going to be some more plant network optimization that has to be done. So, there's a lot of work underway there, more to come. It's going to take a little bit longer to get there, but I feel good about those. And look, there's always going to be new things that will build within that $500 million over the next couple of years.

Andrew Lazar
Analyst, Barclays Capital, Inc.
Q

Maybe picking up on that last point – I mean, closer in, I think the challenge is that additional pricing and assortment simplification could place some further pressure on volumes in a business that already faces meaningful fixed cost deleverage. How do you avoid a scenario in which sort of pricing improves unit economics, but the resulting volume pressure limits or delays the anticipated margin recovery?

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

A

So, it's got to be everything, right? So, we have to start to stabilize the business. We've got to start to stabilize the volumes. Even as the volumes are still down, which we do anticipate in the near term will be the case, we do have a lot of cost savings initiatives, both up in the supply chain side of the business, plus significant cost savings down in the SG&A buckets as well that we are confident that we'll be able to offset those margins.

Andrew Lazar
Analyst, Barclays Capital, Inc.

Q

Goldfish is both the largest and one of the most profitable brands in Snacks, and the core business focused on households with kids is, I think, as you mentioned, begun to stabilize and return to growth. What gives you the confidence that the recent improvement is sustainable rather than simply reflective of easier comparisons or sort of temporary activations? And I guess, what roles will national media, omnichannel execution, multi-packs, and sort of better-for-you innovation that you talked about play in returning the overall brand to more consistent growth?

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

A

Yeah. So, again, as I mentioned earlier, I'm very much encouraged by the progress that we're making in Goldfish. Since we focused on that core consumer, which is really the families or the households with kids, is where we're seeing that we're gaining traction. And it's not just because, to your earlier point around, earlier comparisons, it's really because of the actions that we're taking.

And on the one end, I see it with regard to the work that we are doing right now around the national advertising campaign around The Snack That Smiles Back!, which is really back to hey, that's the core consumer focus on that, the back to school activation that we're right in the middle of right now. But then, also some of the innovation that we are launching, which is focused on better-for-you Goldfish, but really within that core consumer. So, Gluten-Free Goldfish is a core component of that.

And then, as you mentioned, I mean, there is how I refer to that often as, call it, like in-market execution. It's around making sure that on the e-com side, we're really executing that we are making sure that we're winning in that space. At the same time, when we look at our pack type or our packaging, making sure that we are very clearly are articulating some of the benefits of Goldfish because it's a baked snack with real cheese. And some of these things, again, back to focus on the core consumer and focus on what does the consumer really care about. What does – how does that translate into what we need to do as an organization around the brand like Goldfish.

Andrew Lazar
Analyst, Barclays Capital, Inc.

Q

Yeah. Maybe talk a little bit about the right to win in salty. Salty Snacks remains the most challenged area...

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

A

Yeah.

Andrew Lazar
Analyst, Barclays Capital, Inc.

Q

...with 4Q – fiscal 4Q retail sales down about almost 8% and chips down over 9%.

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

A

Yeah.

Andrew Lazar
Analyst, Barclays Capital, Inc.

Q

As you assess brands, let's call it, such as Snyder's of Hanover, Cape Cod, Kettle, and Snack Factory, where does Campbell have a clear right to win? Where might the appropriate strategy be to narrow the assortment, accept a smaller revenue base, or allocate less investment?

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

A

Yeah. So, as I mentioned, like with Goldfish, we're a little bit further in. On salty, we have much more work to do. It doesn't mean that we're not doing the work, doesn't mean that we aren't working through the pieces, and we're making also very conscious choices around where do we have a right to win. But also what is the core consumer and what is that core part of the portfolio where we should be winning with each of these brands.

I look at our salty portfolio as two pieces. On the one end, you have pretzels; on the other side, you have chips. Within pretzels, a good example of focusing on what are these areas where we have a right to win, it is coming back to Snyder's of Hanover unflavored pretzels. And you saw this past quarter that we actually made good progress when we had the America250 activation, and you saw some positive momentum in and around the unflavored pretzel. We need to do more of that.

At the same time, with regard to Snack Factory, a couple of years ago, we made the choice to not only be in the deli aisle where the brand was born and where the brand has a very clear right to win. We were also in the salty aisle, and we had started to innovate with Snack Factory in the salty aisle. That makes for a very complicated brand positioning. So, as a result, back to the core, where do we believe we have a real right to win. Not in the salty aisle, but in the deli aisle, focus on that. So – and as a result, that's what the team is going after right now.

At the same time, on chips, we have more work to do in full transparency. The chips piece, where we have great brands like Late July, Cape Cod, and Kettle, that space is very competitive right now. And as a result, we're working on, hey, where is our true point of differentiation? Because we really need to make sure that we lean into that with the brands.

Andrew Lazar
Analyst, Barclays Capital, Inc.

Q

Got it. More than half of the Meals & Beverages retail sales are exposed to cooking-oriented occasions, and that portfolio has grown at roughly a 5% CAGR over the past four years. I guess, what gives you confidence that the semi-scratch cooking is sort of a durable behavioral shift rather than simply a response to, call it, near-term economic pressure? And how can Campbell expand its relevance from holiday-heavy occasions into everyday meals without requiring disproportionate investment?

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

A

Yeah. I feel very good about that aspect, and it's because of the portfolio that we have and what we've focused on in the past. And I'll talk a little bit more about that is, if you start with what have we focused on in the past, we have often focused on the holiday occasions or special occasions where we believe we're part of the Campbell's portfolio, we could win. We are finding, again, back to consumer insights that semi-scratch cooking has been a growing trend.

Semi-scratch cooking, by the way, means I am making a meal under 30 minutes with five ingredients or less. So, it's a, call it, like simple making food at home. That's – our portfolio very clearly has benefited from that overall trend. And we have an opportunity to not only participate in that during the holiday period with some of our products, but also outside of the holiday period. So, that is one of the – and we refer to that as empowering everyday cooking.

So, I feel like there is a big opportunity there, and we're working on that not only with our existing portfolio, but also with some of the innovation, like the launch of condensed sauces that we just launched under the Campbell's name. Then, at the same time, back to kind of our broader portfolio, if I look at Rao's, Rao's also plays right within that consumer occasion. And Rao's has obviously grown, has had very healthy growth rates. And I'm relatively confident that with all the work that we're doing, that we're going to be able to continue to grow that brand way beyond where it's currently at.

Andrew Lazar
Analyst, Barclays Capital, Inc.

Q

Yeah, yeah. And Rao's, I mean, continues to deliver strong growth, household penetration, 19%...

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

A

Yeah.

Andrew Lazar
Analyst, Barclays Capital, Inc.

Q

...right, sauce consumption was up high-single digits last year. How do you frame remaining runway in core pasta sauce versus the adjacencies such as soup, pasta, and frozen? And how do you ensure the expansion creates incremental usage occasions without maybe stretching the brand beyond what makes its sort of premium proposition distinctive?

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

A

Yeah. So, again, sauce is boss. We always say that within the Rao's brand. The brand, as you're pointing out, has grown significantly, currently 90% household penetration, which is about 300 basis points higher than when we bought the brand a couple of years ago. That being said, that is still significantly below where a brand like Prego is. If you look at also the unaided awareness metrics, you see that a lot of people don't know the Rao's brand yet. People haven't tried the Rao's brand yet. So, continued focus on brand building, which we've started now probably about like 18 months ago or so, and we invested in the brand last year. We are going to continue to invest in the brand this coming year or during this fiscal year. It's important to continue to get the brand out there, and that should allow us to continue to build that overall household penetration within sauce.

That being said, even within sauce, we've launched some great innovation. Of course, there are some star SKUs, like Marinara is working really well. I personally like Arrabbiata. If you haven't tried it yet, please try it. And then, at the same time, innovation like the creamy sauces is working really well. That was innovation that we launched this past year. That's working really well. So, we're going to continue to build out, call it, like the Rao's sauce franchise. At the same time, as you're pointing out, some of these ancillary categories and the products that we've launched within that have worked. A good example is, for instance, Rao's soup. Soup in glass has actually worked really well for us. It grew double-digit this past year. I believe there's continued opportunity there.

If you look at nearing categories like dry pasta, that works well together with the sauce. And particularly when you are selling product on an online modality like on e-com, actually bundling the sauce with the dry pasta is a great opportunity. And then, we have obviously continued to grow in frozen. Frozen really consists of two pieces. Right now, it's on the one end pizza, where actually we just now reduced the price to slightly below $10. So, it's $9.99, which is actually a price point that we believe is very important for the consumer. Back to a consumer that's very focused on value. And as a result, I'm encouraged by that move that the team has been working on. And then, at the same time, frozen meals is something that we continue to work through. So, long story short, there's a lot of opportunity around Rao's. It's a great addition to the Meals & Beverage portfolio, and it plays right within that semi-scratch cooking.

Andrew Lazar
Analyst, Barclays Capital, Inc.
Q

Campbell ended last fiscal year at approximately 4.3 times net leverage, continues to be maintaining an investment-grade rating is imperative. Can you walk through the expected contributions from retained dividend cash, working capital improvements, earnings recovery, and debt repayment to reach approximately 3 times? And what's a realistic timeframe if the top line recovery takes a bit longer than planned?

Todd E. Cunfer
Executive Vice President & Chief Financial Officer, The Campbell's Co.
A

Yeah. So, look, whether it is a debt holder or an equity holder, being over 4 times leverage is just not where we can be. So, we need to get it down to 3 times as quickly as possible. It's probably going to take realistically, without any big action, three to four years to get there. So, the dividend cut was a big step forward to show how serious we are about reducing debt.

Working capital is going to become a huge focus of mine over the last – next couple of years. We're going to take out a minimum of $100 million this year and more to come. And then, CapEx where we've typically spent over $400 million a year on CapEx, we only spent $370 million this past year, and we set a budget of only $300 million for fiscal year 2027. That will probably be a similar budget for the next couple of years. So, we're doing a lot of initiatives to increase free cash flow and obviously stabilize – stabilizing earnings is really, really important to get that leverage down.

Separately, from a financing perspective, we are looking – we're looking at potential of doing a hybrid debt facility that comes at a higher coupon, but also gives us about a 50% equity credit. That would be very helpful to getting our leverage down as well. So, this is a very important imperative for the board, for us, and we need to get that leverage down to 3 times over the next couple of years.

Andrew Lazar
Analyst, Barclays Capital, Inc.
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In our remaining sort of minute or a little less before we head to the breakout, maybe – Campbell has a number of recognizable brands, right, attractive underlying opportunities. But investors have heard versions, I guess, of the stabilization and recovery message before. What gives you confidence that the combination of the sharper portfolio choices, the stronger commercial capabilities, more aggressive cost action, and a less constrained balance sheet will produce a different outcome this time. And what should investors hold management accountable for over the next, call it, 12 to 24 months?

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

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Yeah. Very much what gives me confidence is facing the real real as an organization truly focused on the transformation, truly focused on speed, putting the consumer front and center, and holding each other throughout the organization accountable towards delivering results. And at the same time, back to the speed piece, really because we are collaborating across the organization with speed. And again, all in service towards delivering on our commitments, delivering results.

I also feel like when I look at where we're at, on the one end within Meals & Beverage, we need to make sure that we maintain the momentum that we have. But within that semi-scratch cooking that we talked about, and at the same time, we got to continue to make progress on the turnaround of Snacks. It's very early stages. I'm encouraged by Goldfish, but we have much more work to do, and that's what we're going to continue to talk about and bring people along on the journey.

Andrew Lazar
Analyst, Barclays Capital, Inc.

Okay. All right. So, please join us in the breakout, and join me in thanking Mick and Todd for being here today.

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

Thank you.

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

Yeah, of course.