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Campbell Soup Co. (CPB)

BofA Securities Consumer and Retail Conference

CORPORATE PARTICIPANTS

Carrie L. Anderson

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

Mark A. Clouse

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

OTHER PARTICIPANTS

Peter T. Galbo

Analyst, BofA Securities, Inc.

MANAGEMENT DISCUSSION SECTION

Peter T. Galbo

Analyst, BofA Securities, Inc.

All right. Welcome, everybody, back from lunch. Good afternoon. My name is Pete Galbo. I'm from the food and beverage team here at BofA. We're delighted to be joined at the conference today by the Campbell Soup Company. \$9 billion plus revenue for this year and a market leader in soup, pasta and Mexican sauces as well as salty snacks. Campbell's recently reported its fiscal second quarter with strong sales growth across both its Meals & Beverages business as well as biscuits and Snacks.

Please join me in welcoming to the stage, Mark Clouse, CEO; and Carrie Anderson, recently named CFO. Welcome to both of you. Thanks for being here.

Carrie L. Anderson

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

Thank you, Peter.

Mark A. Clouse

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

Great. Good to see everybody right after lunch. Perfect spot.

QUESTION AND ANSWER SECTION

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

So, Mark, maybe to start off, I was just hoping you can give us a quick recap on the quarter results. Anything coming out of the call, you've been getting questions on. Obviously, very strong result.

Mark A. Clouse

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

A

Yeah. It was a good quarter. I think, I mean, from a number's standpoint, it was kind of across the board, I think, strong growth, double digits on every metric, which is nice. I'm reminding my board periodically that they're not all going to be double-digit growth numbers. But I think what's more important is it was a good quarter to see a couple things continuing to build momentum. Probably most dramatic in the quarter, in my mind, was arguably the first time that many aspects of our Snacks business came together in the same quarter.

So supply chain being kind of fully operational, good marketing investment, strong innovation and healthy margins. And that, I think, to see the kind of growth, the share growth, even some of the businesses that might have been a little bit under pressure a year ago for supply chain to come back at this pace they did, I think, was a really strong statement and hopefully a good window into what we see as the potential for that Snacks portfolio, which is half of our business. Although Meals & Beverage had a really good quarter as well, but I think a little bit of the star of the show was snacking this time through.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

Yeah.

Carrie L. Anderson

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

A

And we were able to raise the guidance for the second time of the year as well...

Mark A. Clouse

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

A

Always feels good.

Carrie L. Anderson

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

A

...the net sales guidance as well as the profitability guidance as well.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

Great. And Carrie, first off, welcome.

Carrie L. Anderson

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

A

Thank you.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

Maybe you could give us a little bit of just insight into the move, your background and why Campbell's?

Carrie L. Anderson

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

A

Yeah. Well, I will say Mark is a great salesperson. So he was certainly one of the key reasons why I made the move. Don't have CPG experience, but I have a lot of other variety of experiences. So by training, engineering, manufacturing, lots of opportunity there, did my start at General Motors, then went to one of their spinoffs called Delphi Automotive and then moved into more diversified and conglomerate type of industrial manufacturing companies called Dover. Then my last stint prior to coming to Campbell's was as CFO for Integra LifeSciences, a medical device company.

So, again, lots of variety of experiences. And so very excited to see where – what Mark and the team have done over the last few years, but also looking forward to the strategies that are unfolding, both for Snacks and M&B and hope to be a great part of that as we move that forward.

Mark A. Clouse

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

A

Yeah. Glad to have Carrie join for sure.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

And Mark, maybe you can talk about some of the other management changes, mix [ph] move to run Meals & Beverage and (03:28) Snacks. So...

Mark A. Clouse

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

A

Yes. So, right, it was one of those – the dominoes a little bit began with the departure of Val Oswalt to Kodiak Cakes, which, I mean, I think in the scheme of things, one is probably more proud of the fact that team members leave to go be CEOs or CFOs for the company. So I was thrilled for Val. I hated to see her go, but happy to see her step into a big role, and I know she's going to do a great job there.

Mick and I, when Mick joined the company, we talked a lot about his future and his desire to really continue to build his broader skill set. And this is one of those moments when you promise someone, you got to be ready to step up. So although I didn't see this moment as exactly perhaps on the timeline I would have expected, it was a great opportunity for Mick to step into a commercial role. And I think he's going to be able to bring a lot of the business and commercial acumen, but really knowing the company and that division, well, is going to be a great match.

And what a luxury to have someone like Chris Foley in my team, who is a – had worked every aspect of the company, a lot of time in Snacks. And just an incredible leader that I think really helped bridge the gap of Val's departure. So a little bit of moving shares, but I think all with very seasoned and experienced players that's been able to feel very much pretty smooth I'd say, not a lot of disruption. And Carrie certainly hit the ground running, nothing like starting in the middle of board meeting into earnings, into investor meetings, it's good. Yeah.

Carrie L. Anderson

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

Yeah.

A

Mark A. Clouse

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

Yeah. It's the way we like to do it. But I know I'm not going to scare. If you're coming out of the automotive industry, life still feels pretty good here in food.

A

Carrie L. Anderson

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

Yeah.

A

Mark A. Clouse

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

So...

A

Peter T. Galbo

Analyst, BofA Securities, Inc.

And then maybe just to touch on a couple of other changes. Back in January, you announced you're consolidating the Snacks offices in Charlotte, Norwalk.

Q

Mark A. Clouse

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

Yeah, right.

A

Peter T. Galbo

Analyst, BofA Securities, Inc.

Just the color around the decision? How it's proceeding?

Q

Mark A. Clouse

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

Yeah.

A

Peter T. Galbo

Analyst, BofA Securities, Inc.

What you're expecting kind of going forward?

Q

Mark A. Clouse

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

Well, I think always in mind was going to be how do we set up post integration of Snyder's-Lance. We had headquarters in Norwalk for Pepperidge Farm, Charlotte, and actually some folks in Hanover, Pennsylvania, which was the old Snyder's headquarters. And the intent was never to have three headquarters strewn out across the Eastern Seaboard. But enter COVID, and that was probably not the moment to start moving people around.

A

And so coming out of it, we took a hard look. And honestly, in the world we're in today, I felt that it would be very compelling to have not just consolidate Snacks, but to bring them to Camden, all of our talent under one roof, the opportunity to move talent more seamlessly in a very competitive world for talent between the divisions, concentrating some centers of excellence that can be utilized by both businesses, while, of course, taking the opportunity to drive efficiencies by shutting down some of the other prior Snacks headquarters.

What it does not mean is it, in some way, we've taken strategic optionality off the table. I've had a couple of people ask me, Mark, does it mean you'll never separate the Meals & Beverage and Snacks? Although it's not the plan today, for sure, but it doesn't change that and, arguably, having gone through this with Mondelez, way back when there's actually some distinct advantages to having all of your talent in one location.

So we feel great about that. I think we can also – we're going to invest some money back in the Camden. And we've been there 155 years, one mile from where Joseph Campbell put the first tomato in a can. And so there's a lot of magic, I think, in that Camden Campbell's connection. And so we're going to really live into that as a company in a big way.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

Great. And I think you've quantified what the expansion is going to kind of be from an output standpoint?

Mark A. Clouse

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

A

Yeah. I mean we're hoping to save about \$10 million on an ongoing basis, some of – a little more, but we're going to spend some back on the business as we kind of stand up Camden and bring a little bit of renovation to that building as well. But, yeah, and that's good because that's going to help us on that margin road map we're chasing and that's certainly built into that and part of that.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

Great. So maybe we can take a step back, just high level kind of starting off in the consumer. We've heard from just David Tinsley at lunch. We've heard from a lot of others today. Just what you're seeing across the business for consumer behavior, elasticities this year so far and any major differences maybe between Meals & Bevs and Snacks?

Mark A. Clouse

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

A

Yeah. I mean, I think the language of the day has kind of been this consumer resilience. I will say, though, in fairness, that I'm not sure there's a immediate precedent that matches the environment that we're seeing right now. So when we talk about lower than historical elasticities, although I would say that is, in fact, true, not a lot of data points at 20% pricing to determine whether or not we're seeing exactly what one might expect.

But I think, at the end of the day, the healthy nature of the portfolio and the brands is really what we're focused on. Driving value and relevancy in the brands relative to both competition, but also more broadly within consumer choices, I think that has gone extremely well. And I think a big part of that is not what you're doing necessarily right now, but as much what you've done over time to invest in these equities and build the businesses.

Having said it, I think we do, though, remain extremely vigilant. I do appreciate that tough economic environment, over time, you may see consumers as they experience that for an elongated period put a little more pressure on elasticities, I think we're well positioned. But certainly, as we said in our guidance, for the balance of the year, we want to leave a little bit of flexibility to address that if we need to.

As again, the goal in mind right now, and this is probably the biggest message I'd say is that this is a really important moment to try to balance both the growth, both dollar and volume, market share, margins, profitability, trying to really kind of thread that needle of getting those elements positioned in the right way to set us up for the future, right.

Don't get too greedy and try to grab back too much margin fast, don't try to chase volume downward or share downward at the expense of profitability in the category, how do you really kind of put the fine-tuning on all those variables to get the best position to not just deliver now, but really to kind of come through this with momentum. And that, I think, has been our goal.

And I think we feel very good about the first couple quarters of the year and the outlook for the balance of the year, even though a little bit tougher comps we'll have in the back half. But I think, overall, we feel really good about how we're driving that algorithm today.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

So maybe if we just kind of dive in further into the segments, starting with Meals & Bevs. Soup is 60% to 65% of that category sales. You've talked a lot about private label. In broth, I think it condensed a little bit, but ready-to-serve has maybe been a little better. Just kind of give us the way out of what's happening in soup specifically?

Mark A. Clouse

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

A

Yeah. No, it was a good opportunity. And I tried to take a little bit of a step back on the earnings call this time and say, okay, what do we really – like, what's good look like or what are we trying to accomplish in this category. Obviously, it's a very important part of our business. And we kind of talked about three kind of focus areas of our strategy.

The first is kind of this concept of win the fights that ultimately matter most. So essentially, where are the strategic parts of the business that we want to make sure that we distort resources to ensure that we're on the winning side. That is things like our icons on condensed, right? So I don't want anybody ever, ever eating another chicken noodle soup other than Campbell's or forbidden to try tomato soup from anyone other than us. But the idea is how do we really make sure that those four items, tomato, chicken noodle, crème of mushroom, crème of chicken are really protected.

And for our customers, it's really important that they remain very visibly affordable in the retail environment as well. And so that's been one of the areas that we continue to grow share. So even as we may see some pressure in condensed, if you look at our icons, we're still growing share on it.

Another great area is ready-to-serve soup. I mean the star of our soup business has really been Chunky. I mean, we could probably do 30 minutes on that one alone. But it's just been a great example of a brand and a business that was really underappreciated. We were kind of selling it for \$10 for 10s. Kind of telling consumers, this is not high quality. This is lower cost value food. Low and behold, we go out and do some blind taste tests and it beats

everything, like handedly beats everything, primarily because the content of Chunky is 14 grams of protein, substantial. And we've pivoted that now. We're talking more about that. We're targeting younger males.

We are one of the primary sponsors of Madden Football, which I got to be honest with you, when that came to me, I wasn't 100% for sure, but it has been lights out effective. I mean we're up 35% over three years. We've added 2.5 share points. That brand is just a superstar. And part of the insight there is that as life has evolved, lunch is a very, very powerful occasion for us, and Chunky works really well.

So those are a couple of examples. Pacific, I'd throw in there as well, but those are the strategic fights that we must win now to best [audio gap] (14:00) magical about soup versus a lot of other categories is its versatility. And one of the primary places you see that is in cooking.

And so when you think about the fact that we're more than 50% of the soup category, if we can continue to drive relevancy in that category, we're going to win over time. And that is heavily influenced by that behavior of cooking. And so you see us now doing a lot more to stimulate that behavior. And honestly, from a consumer-centric standpoint, both the prevalence, but also the enjoyment or the engagement with cooking has never been higher.

I mean, honestly, if you turn on a TV or you're looking at social media, proliferated with food cooking, that behavior, and that really does translate into the consumer engagement model. Like, why my wife needs to take the picture of every plate of food that comes in front of me and then who's waiting to see it, I don't know. But apparently, there's someone is because we do that at every meal. But I think the point is, is that cooking, in general, is a behavior now that has really locked in. And the more we can fuel that, the better it is for the category longer term. So that's the second area.

And then the third is really what's left. And those are important, but, honestly, we've made some conscious decisions and trade-offs. And what we want to make sure is, although those are coming in consistent with what we expected, I certainly don't ever love to see any share loss, and I want to make sure that we're continuing to not be satisfied there.

And these are things like healthy requests or our kids' SKUs on condensed that we want to make sure that we are making as relevant as possible. But, clearly, those are some areas where we have felt some pressure. So I guess my point was, soup is coming in essentially where we expected. We're doing well in the areas that we really have prioritized. And I think for the long run, that's where the focus is.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

If I go back to 2019, when you had the Investor Day, that was kind of your first full swing. I mean, to crystallize my memory, full swing in soup and a lot of it was around kind of the cooking soups.

Mark A. Clouse

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

A

Yeah.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

And we've seen the Creative. I mean it seems like it's really kind of translating the way...

Mark A. Clouse

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

It is.

A

Peter T. Galbo

Analyst, BofA Securities, Inc.

...maybe a little later than you would have thought, but...

Q

Mark A. Clouse

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

Well, look, honestly, I mean, it's – I spend a lot of my, as you might imagine, day pointing out to people that I certainly understand some of the apprehension as it relates to soup as a category. Quite frankly, we probably created some of that on our own, based on historical strategy. But what I would tell you is now what was a – originally a COVID, oh, other eating soup because they have to, to, well, wait a minute, now there's – it's all pricing. Oh, hold on, it's the economy. I mean, it's been four years now of growth in this category. You have – it is integrated into consumer behavior at a level that is just dramatically different.

A

And as I remind people, if you go back over the last 20 years of soup, the biggest indicator or correlation to performance has been whether or not we're investing and supporting. And so even in the past where you might argue soup did not perform consistently, and I would agree, much of that was because we were not supporting the category at the level that we wanted. I've had a lot of bad categories in my career. I'll take soup every day of the week. It is a good category. It has high relevance, and the team has done just a fantastic job with it.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Maybe just to round out soup. One of the big strengths so far this year has been supply chain improvement, particularly on the foodservice side. It's been a big driver, at least in the first half. Just how are you thinking about that over the balance of the year?

Q

Mark A. Clouse

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

Well, just to comment a minute on supply chain. I think this is one of those things that was probably a little bit of kind of a good and bad. Unlike maybe many of our peers, when COVID started to really put pressure on supply chain, our supply chain was not in the best of positions. And in fact, I think I even said this a few times publicly.

A

I would say that our supply chain certainly was lagging what I would expect a company of our size, maturity. We just weren't where we needed to be. And there's a lot of good reasons why, but at the end of the day, it forced us to take action during COVID, right. We couldn't just sit back and say, look, we're going to weather the storm and then we'll get back on to the strategic path later. We had to dig in and try to fix it then. And that was adding capacity, new technology, processes, people.

The good news is, though, now flash forward two years later, I honestly can say that I see our supply chain as a bit of a competitive advantage right now. You see that in our service levels and the consistency of our execution. And so that has been a huge pivot in the company that's created some of the more recent results that you've seen.

I think as it relates to a business like foodservice, those were businesses that in the triage of supply, because of a little bit lower margin business, ended up being kind of lower on the list. And so now as that supply chain has kind of come back to full strength, we're able to bring the full support to that business. So although a lot of it, I would say, is recovery, it's been nice to have that as a tailwind.

And we'll continue to see that, maybe not to the full extent that we did in the first half, but it'll continue to be a tailwind of support, as is Canada, which also kind of suffered through a little bit of the arbitrage of where we're going to put the limited supply we had a year ago now, I think, is going to be beneficial for them as well. They're doing a great job.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

And then what about – and I told you I was going to ask you about SpaghettiOs. So what about some of the tail brands that have been kind of out of service?

Mark A. Clouse

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

A

[indiscernible] (20:34) SpaghettiOs, come on.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

Yeah, the market shares, right, the numbers have been great, market share. Just are you fully back in stock on the tail brands as well?

Mark A. Clouse

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

A

Yeah. I mean we feel really good. So most of what you'll see now, if you were to kind of compare our distribution to where it might have been three years ago, most of what's left that would be a gap is going to be things we've chosen to rationalize. But for all of our sub-brands, SpaghettiOs absolutely crushing it right now.

And again, you think about the lunchtime behavior, where does SpaghettiOs fit in that, it actually – it's, again, one of those brands that we probably lost interest in a lot quicker than consumers did. And as we breathe life back into it and get some news and excitement coming there as well, is great to see.

And, look, those supporting cast members, highly efficient, right, riding the same scale and supply chain that we have, good to see them contributing. But, yeah, we feel pretty good about the flankers now and where we are, now more about continuing to drive that consistently.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

Maybe we'll just take a pause. If there's any questions in the room?

Mark A. Clouse

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

A

Yeah.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Right. Go on.



Mark, can we just come back to the soup consumer? Given some of the gains that private label is making, do you think it's an existing soup consumer that now that private label is back, they're just trading back down? Or is it a consumer that's still coming into the category or...

Mark A. Clouse

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

Yeah.



...incremental consumer that's jumping right to private label? I'm trying to figure out the mix.

Mark A. Clouse

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

Yeah. So it's a great question. I would say that, for the most part, you're right. There was a period where supply was limited even more so on private label than some of the other categories. I think that's fully cycled now. What you're seeing and what we're watching relative to consumer movement between private label and us, it tends to be – and this is very consistent with history.



It tends to be a consumer usually in an older bracket that has a very specific fixed income. They don't want to not buy Campbell's, but if they have \$1.25 to spend on a can of soup, and we're \$1.45, then they'll rotate out. And as prices normalize, they tend to come right back to, though. They're not – it's not the worry of, oh my gosh, let's not let anyone try private label condensed soup because then they won't come back. I'm a little more worried about that, honestly, on broth than I am on condensed soup.

But for soup, it tends to be that older consumer of a little bit more fixed budget. They can't pay that price point. And so that's where we've got to really understand, for example, if it is \$1.25, what about \$1.35? Could it work – and that's what we're continuing to learn, but we're not seeing like a lot of the new consumers that we've been bringing into the franchise, right, younger consumers or those that may be trading out of other categories in. They don't normally trade into private label. It's normally into a branded player because they're coming from a more expensive category, like frozen meals or refrigerated prepared meals, and they're making a trade into canned soup. It's usually more into a Chunky or more into a Campbell's. Yeah.



Okay. And then just on the consumer, some of the pressure that we've been hearing about, are you seeing any consumers that you wouldn't have seen otherwise? Any signs that the consumer is feeling that pinch and moving into the soup category...

Mark A. Clouse

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

A

Oh, yeah, for sure. I mean Meals & Beverage, in general, right, if you think about the portfolio, we've got some of the most affordable kind of landing spots if you're trading down into categories that are more efficient, whether it's Prego on pasta sauce or whether it's a quick condensed soup meal or even Chunky soup.

So we are absolutely seeing or are benefiting to some degree from the trends. That's why – and again, I don't ever want to lose share, but if the soup category continues to grow mid- to high-single digits, and we may be pressured at over 50% of the category, even if we're pressured a little bit on share, the net of that is still a pretty strong positive for the company.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

So maybe – that's maybe a good segue actually on to Prego, because you mentioned. You talked about wanting to move more into the premium pasta part of the market. There's certainly no shortage of competitors on shelf. But just how do you view the competitive landscape, particularly at that more premium end and how do you get there organically or through M&A?

Mark A. Clouse

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

A

Yeah. Well, there's not really – as strange as it may sound, there's not really a high degree of interaction between the more premium space and the mainstream pasta sauce. So you don't have like a lot of trading between a [indiscernible] (25:42) and a Prego, but what you do have is a lot of growth in that premium segment. I mean, pasta sauce, in general, as I remind people, that was a category that was growing before COVID, grew during COVID, and I suspect will continue to grow. And that's both mainstream and premium. So it was a very strong category.

But I think it's fair to say that the more super premium sub-segment has really been driving outsized growth. And so I continue to see that as an opportunity. If you think about the gaps in our portfolio, that would be very high up the list. And I think it – I don't know that an organic solution to that is really the best answer. I've always found stretching mainstream brands in the premium have not – I can't remember it ever being successful, and I've tried it a few times.

But at the end of the day, I think what that probably represents is an opportunity for M&A for us. And as I think about the future, and again, we're going to be super disciplined. We're going to very focused on things that are well within our capability set. But that's one that fits pretty well. I would say Mexican sauces is also an area where you're seeing a growing premium sub-segment that, over time, I think represents opportunity for us on Meals & Beverage.

So I do think we're keeping our eyes open. And we have a balance sheet that's probably as strong as anybody. Our debt level is 2.5 times right now. So I think we're in a great position to execute something if the right option comes along. Nothing major, giant, but complementary. I think it's – could be a good moment for that.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

It's funny you bring up Mexican sauces. I mean you've had some crossover, I feel like from Late July, now there's Late July sausages. Are there other opportunities to do more with Snacks in the Mexican sauce portfolio?

Mark A. Clouse

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

A

Yeah. I think so, right? And I would even include although not Mexican in nature, but hot sauce as a adjacency. It's an interesting category as well. So I like that area. And I think that Pace – interestingly, Pace plays this really unique roll in salsa where it's far and away the top salsa for cooking. And it's kind of emerged as this ingredient as much as it is as we would think about it for snacking. And that I think has continued to open the door. And that was one of the brands we had a real challenge on supply with that we're now back in full strength.

And so we've got some great innovation coming. I tried a ghost pepper habanero. If you haven't tried the Ghost Pepper Chunky soup, you should try that. And if you haven't watched the guys on Yahoo Finance try it online, that's really funny to watch. I've never seen anyone so more uncomfortable and try to get through it. But, look, it's – spice is king right now. And I think our ability to bring that through Pace is exciting as well.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

Great. And maybe just to wrap up on meals, and Carrie, I would love to get your perspective on this as well, just thinking about the margins. You have a long-term operating margin target of 21% or so. Doesn't call for a ton of expansion from here, maybe a couple of hundred basis points. But just wondering, if we break that down from a gross and operating standpoint, how are we viewing that? Is it all gross margin expansion and you're reinvesting? Just help us frame that.

Carrie L. Anderson

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

A

Yeah. I think in terms of the some of the structural pieces of what's happened with COVID, there is some transitory headwinds that I think will come back. And that's probably a couple of hundred basis points as we look at overall margins for the company. And so I do think that we have the opportunity to move closer to where we were pre-COVID.

And I think that's going to come through continuing to work network optimization opportunities, productivity initiatives, innovation on the net sales side on both sides of the division, but I do think there's opportunity to get close to that that pre-COVID level as we kind of get more clarity on the macro backdrop. But I still think there is still some headwinds there, this year, for sure. But I think as we move past and we get more clarity on that, I think there's certainly opportunity for margin opportunity there.

Mark A. Clouse

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

A

Yeah. I do think, look, one of the things that's unique about Campbell right now is that we do have in our outlook for the next several years, the opportunity to generate outsized margin expansion for Snacks. That's really – if you think about the algorithm for the company, and you're looking for compelling proof points, that self-help opportunity of having that margin gap that we believe we can reduce is, I think, something that, for some of my peers, you're going to have to kind of engineer what that next catalyst is, it's nice to have that within the company. And again, everything that we've been executing and doing, we continue to feel very confident that that path is there.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

And maybe that's a good place to switch over to talk about Snacks. Mark, it was a great 2Q for Snacks, particularly on the salty side. Just why is the momentum there? How sustainable do you see it going forward?

Mark A. Clouse

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

A

Yeah. I mean, look, I think as I said earlier, it was a great quarter to have kind of all the pistons firing, if you will, right? So we've always had like this kind of, it's all great, but – that qualification of opportunity, this was a quarter where we really had all the pieces together.

When I step back and I think about our Snacks portfolio, right, 50% of our business, we play in almost every major Snack segment, but we play in it with a differentiated, somewhat more premium offering. And that I think is what makes us unique, right. So we're in potato chips, but we're in with Kettle potato chips. We're tortilla chips, but we're Late July for organic and GMO-free.

You're cookies, but we're Farmhouse, Milano. Cracker, but you're Goldfish, right? You just go right down the line every one of those categories, and to have that, we call it, elevated, but that elevated experience, which is where ultimately consumers are moving in snacking, it gives us to me a very – and probably underappreciated at least from my standpoint coming in, I think, a bit underappreciated how compelling that portfolio really is.

And even in places where we're arguably a bit more mainstream like pretzels, there's been significant category drivers that we're taking advantage of that's making those categories, our Lance sandwich crackers, opportunities to really be pretty complete, at least in our power brands, right? We talk about eight brands that was growing 20% in the last quarter. I just think a very – and you pair that again with the self-help story on margin, I think you can make an argument for being one of the more attractive snacking portfolios that's in the marketplace today.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

And can we talk a little bit about, one of the questions we field a lot is the promotional environment and maybe more on salty than anything. And you've spoken at length about this in the past. But just how do you see it? Do you see it as a more seasonal cadence around holidays? I mean, how should we be thinking about that?

Mark A. Clouse

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

A

Look, I think that if you were out of supply – and again, I'm very careful here. Last time I spoke on this, I think the stock went down 7% in like five minutes. But, I mean, I don't know why it's so complicated to get, but I'll – let me take another swing at it. Someone watch the stock and make sure it doesn't slow down.

But the short answer is, when we weren't supplying the businesses, we weren't supporting them. And I don't care who you are, what brand it is, you're going to have support in snacks, right? It's a category that requires a level of promotion. We're not going to chase it down. We're actually, I think, going to be more efficient than we were historically because and, inevitably, you have things that get built into your history that aren't always the most efficient.

And so when I think about promotional support for the business going forward, I think of a normalized level, arguably favorable to where you would have been in the past, but present. And if you're in the Snack business and you're suggesting that you're not going to need to ever promote the business, good. I hope those are the big guys saying that, because that's just not the way the category ultimately works.

And so I think there's a balance here that I feel very good about. And if you watch the last two quarters, like, in Q2, we drove that growth on Snacks while growing margin at the same time. So, hopefully, that feels like good, strong, compelling evidence to the pragmatism that I'm describing that a irrational chase to the bottom.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

Great. I'm going to just want to do another check for if there's any other questions in the room. [ph] Brian (35:18)?

Mark A. Clouse

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

A

Brian.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

Last from the back.

Mark A. Clouse

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

A

Yeah.

Q

Two questions. One, Mark, on the last point, just on promotions. And you don't have to answer this specific to Campbell's and Snacks, but just more broadly. As we go into the summer holidays, like, do you expect to start to see a more normal promotional cadence as we move into Memorial Day, July 4?

Mark A. Clouse

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

A

Yeah.

Q

It's been really abnormal. And so that's first question. As we're observing it from the outside, should we expect that retailers want to kind of get back into the box and...

Mark A. Clouse

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

A

Sure. Yeah.

Q

...merchandise?

Mark A. Clouse

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

A

I think so, right? I mean I think the summer holidays are always really important time in the snacks world. I think you'll see a fairly competitive environment. I've talked a lot about the fact that my sense is that you'll probably see that in a more judicious way. Like I said, I don't think anybody is going to want to rush back to dysfunctional pricing or things that are going to look like, oh my gosh, I'm down a share point. I'm going to buy it back in this holiday. But I do think you're going to see an environment that feels more normal.

And I think depending on where you might have been through the journey, will depend how much incremental balance you may make to investment. I've said for us as a company, if you look at the whole year, maybe it's a couple hundred basis points out of our net pricing that one might imagine being in promotion. We did a little better than that actually in Q2. But I think that's probably not an unreasonable expectation. And certainly, we're preparing for that to be more of a category dynamic than something that we're doing on our own. So...

Q

But normalcy, right?

Mark A. Clouse

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

A

Normal. This is not – I mean, again, I'm not sure what the catalyst would be other than if you're really losing on volume and share. But even then, I mean, taking the profitability out of the category is certainly none of our objectives, and it's like we're getting pressured to do that. I think customers as well are expecting us to support our businesses. But at the end of the day, I think everything that we've been part of has been very constructive in nature.

Q

And then, Pete mentioned at the Analyst Day in 2019, and there's obviously been a lot of success in the journey you've had in meals. Can you just, like, what inning are we in now in Snacks, right, in terms of...

Mark A. Clouse

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

A

Yeah.

Q

...kind of where you want to be? Just give us a perspective on that.

Mark A. Clouse

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

A

Yeah. What inning are we in? Well, I think the part that's the hardest, I think, for people to see in fairness is the progress that we've made on the margin, right? I think there is some more of an environmental obscuring of the things that we've actually done and executed. That's why we feel like, as things normalize, you've probably got a

couple of hundred basis points of the journey that's already there that we think we'll be benefiting from over the next year or so, a couple of years maybe at the most, that ends up becoming a – I think a proof point.

On the top line standpoint, when it relates to innovation, capacity, supply chain, I'd say probably more like – and route to market, I'd throw in there, I'd probably say something more like the sixth inning, right. So I think we're around the corner. I think we're ready to compete on a relatively level playing field. I feel great about the innovation pipeline we have and the execution of our business. I think there's still some things we can do in the independent distributor world to really make DSD as effective as it possibly can. I think there's some logistics pieces that are still efficiency plays that we can drive. Want to get the whole headquarters together, right? And I feel like that you're not complete until you've got that done as well.

But I feel like we're in a position now, where from a growth standpoint, you should expect to see sustained strength there and start to understand where do we really sit in the packing order of snack companies. And my ambition for us is to be the fastest growing. I really think we can be. Given the positioning of our businesses, how well we've cleaned up the portfolio, if you remember, Brian, three years ago, when we started talking about this, we had this big partner brand headwind that we were dealing with like every quarter. In the last quarter, I think that was down to 4% of the business.

So if you remember, it was over 10% when we started. We've done a good job now. I think what we have left is what we want. And so I think we're in a really good position as it relates to growth to drive it. So...

Q

And is the opportunity, as we think about being the fastest grower, is it channel? Is that really-

Mark A. Clouse

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

A

Yeah. I mean part of it. And when I say that, it doesn't mean we've captured all the opportunity, right, because one of the things that has been a fact about this business is we didn't have really the packaging flexibility to go after even something as simple as multi-packs, right? You go in and you look at the competitive landscape in snacking and there's some of our competitors have got 30, 40 variety packs. We just couldn't do it. Now we're able to do it. That also opens up convenience, which if you were just to take a fair share of convenience based on our retail share, it'd be worth \$100 million.

And even simpler than that, brands like Kettle are still primarily – although I would argue one of the strongest brands we've got in the portfolio, it's still really a Western-based brand that has national distribution opportunity that's worth significant growth. And so I just think we're now in a position to go after those. We haven't done that yet, but I think that that's going to give us a lot of – and should hopefully give people a lot of confidence in the ability to grow the business.

Q

Thanks, Mark.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Great. Well – and if you haven't tried the Kettle air fried chips...

Mark A. Clouse

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

Yeah. Very cool.

Peter T. Galbo

Analyst, BofA Securities, Inc.

...I'll plug those because they went in like two seconds.

Mark A. Clouse

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

Yeah, I know. We're making as fast as we can.

Peter T. Galbo

Analyst, BofA Securities, Inc.

But we're out of time. So, Mark and Carrie, thank you both so much.

Carrie L. Anderson

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

Thank you.

Mark A. Clouse

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

Thanks, guys.

Peter T. Galbo

Analyst, BofA Securities, Inc.

We really appreciate it.

Mark A. Clouse

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

Yeah. Appreciate it. Appreciate it. Thank you. Thanks. Always good to see you, guys.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Thanks.

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