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The Campbell's Co. (CPB)

Q1 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to The Campbell's Company First Quarter Fiscal 2026 Earnings Conference Call. Today's conference is being recorded. All lines will be muted during the presentation portion of the call, with an opportunity for questions and answers at the end. [Operator Instructions]

I would now like to turn the call over to Rebecca Gardy, Chief Investor Relations Officer at Campbell's. Please go ahead.

Rebecca Gardy

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

Good morning and welcome to The Campbell's Company first quarter fiscal 2026 earnings conference call. I'm Rebecca Gardy, Campbell's Chief Investor Relations Officer. Joining me today are Mick Beekhuizen, Chief Executive Officer, and our new Chief Financial Officer, Todd Cunfer.

Today's remarks have been prerecorded. After the prepared remarks, we will transition to a live webcast Q&A. The presentation, a transcript of management's prepared remarks and today's earnings press release are available on our website at thecampbellscompany.com in the Investors section. A replay of the webcast will be posted at the same location following the Q&A, with a full call transcript, including the Q&A session, available within 24 hours.

Slide 2 outlines today's agenda. Mick will provide insights into our first quarter performance, as well as our in-market performance by division. Todd will then discuss the financial results of the quarter in more detail and review our guidance for the full fiscal year 2026. Please note that all references to the first quarter in-market performance refer to the 13-week period ending November 2, 2025 compared to the 13-week period ending November 3, 2024.

In addition, beginning in fiscal 2026, we are reporting share of our Cape Cod and Kettle Brand chips against the total potato chip category, replacing the prior comparison to the kettle-cooked potato chip category. Late July will be compared against the total tortilla chip category, rather than the natural and organic tortilla chip segment. We believe these updates more accurately reflect our brands' in-market performance and underscore their strong positioning within the broader chips category.

And finally, beginning in fiscal 2026, the snacking and meals and beverages retail business in Latin America is managed under our Meals & Beverages segment. Through the fourth quarter of fiscal 2025, the company's Latin America retail business was managed under the Snacks segment. Prior period results have been adjusted to reflect this change.

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

And now, it is my pleasure to turn it over to our Chief Executive Officer, Mick Beekhuizen. Mick?

Mick J. Beekhuizen

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

Thanks, Rebecca. Good morning, everyone, and thank you for joining our first quarter fiscal 2026 earnings call. Before we review our results, I want to take a moment to welcome Todd Cunfer, our new CFO. With more than two decades of food industry experience, Todd brings the expertise and perspective we need. Throughout his career, he has demonstrated a proven ability to drive change and deliver superior financial results. I'm confident he'll be a strong business partner and a tremendous asset to our company. Welcome, Todd.

Now, let's review our first quarter results, which were in line with our expectations, as we continued to navigate a dynamic operating environment. Organic net sales were down 1%, driven by a 2% decline in consumption, with the difference mainly due to retailers building inventory in Snacks ahead of upcoming promotional activities. We have an attractive brand portfolio that meets the key attributes consumers are seeking, whether supporting at-home cooking, providing flavor-forward options, premium experiences or health and wellness benefits.

While our total in-market consumption was down 2%, our 16 leadership brands consumption was down 1%, and collectively, they held share for the eighth consecutive quarter. Within Meals & Beverages, our leadership brands benefited from consumers' ongoing cooking at home behaviors and the growing demand for elevated meal experiences. However, our Snacks business remained under pressure, as consumers continue to be increasingly intentional with their purchases.

Since the start of the fiscal year, we have made significant progress on our cost savings initiatives, improved overall productivity and implemented selective in-market pricing increases. However, these actions were not

sufficient to offset cost increases and top line headwinds, resulting in a decrease in our adjusted EBIT margin and an 11% year-over-year adjusted EBIT decline. We continue to be laser-focused on mitigating cost pressures while maintaining marketing support for our brands.

Finally, as outlined in our press release, we reiterated fiscal 2026 guidance, which continues to include the expected tariff impact and the related mitigating actions. Todd will provide more details on our guidance in a moment. As highlighted last quarter, we're strengthening our focus on consumers and their evolving needs. I want to remind you of the framework we shared last quarter and underscore the strategic lens we apply when shaping how our brands show up.

Our brands are uniquely positioned to compete and excel in these growth areas. While we use this framework to guide consumer-led innovation, it also guides our brand activations. A great example is our Rao's sauces campaign, which focuses on the elevated Rao's experience, highlighting the origin of its high-quality ingredients supporting the unique nature of the food we make.

Additionally, we recognize that continued focus on providing an attractive value proposition is critical to be successful. An example of this, during the past quarter, is our multipack Goldfish focus during the back-to-school period, where we've seen double-digit increases in consumption versus prior year through strong retail execution and promotional support during an important consumer occasion, meeting the need for a wholesome convenient snack at the right value.

By concentrating our efforts and executing with clarity and discipline, our diverse and advantaged portfolio can build deeper consumer connections, meet their evolving needs and unlock meaningful sustainable growth. We remain committed to crafting high-quality food at the right value, as well as investing in omni-channel execution, brand activation and innovation.

Turning to slide 7, total company leadership brands saw stable share performance in Q1, with consumption down 1%. As a reminder, our leadership brands represent approximately 90% of our enterprise net sales. The first quarter marked the ninth consecutive quarter that our Meals & Beverages leadership brands have held or grown share. Consumers' at-home cooking behavior was once again a tailwind for several of our brands within the division, especially our condensed cooking soups, broth and Italian sauces.

Turning to Snacks, consumers are still snacking, but how people are snacking is evolving. We are maintaining our solid share position within snacking, as consumers choose snacks that meet their needs within premiumization, flavor exploration, and health and wellness. In Q1, four of our eight Snacks leadership brands grew or held share. We believe our powerful portfolio of snack brands remains distinctly advantaged in today's environment. And we are staying close to consumers' evolving needs through our brand activations, innovation and strong omni-channel execution.

Let's take a closer look at each division, beginning with Meals & Beverages on slide 8. Organic net sales decreased 2% for the quarter. Unfavorable volume and mix of 3% reflects the elasticity impact of tariff-related pricing actions, which was partially offset by favorable net price realization. Additionally, although the in-market consumption of our leadership brands was flat, our overall consumption within the division was down 1%.

Turning to slide 9, our total soup portfolio slightly lagged the category on share, as cooking varieties within our condensed soup portfolio and broths remained strong, while eating soups remained under pressure. In the first quarter, broth consumption grew for the ninth straight quarter, driven by segment momentum that included increased households and buy rates, as well as distribution gains and healthy velocities. Younger generations

continue to drive the majority of the momentum, with Swanson posting six consecutive quarters of millennial buy rate gains. Our Pacific brand also performed well, with dollar consumption growth up 25% and volume consumption up 31%.

Our condensed soup portfolio grew share for the eighth consecutive quarter. Dollar share gains in condensed were fueled by our focused strategy to drive more occasions for Campbell's cooking soups into the repertoire of consumers' at-home cooking behavior. Our condensed cooking momentum led to a continued household penetration gain within the overall condensed portfolio and added over 2 million new buyers, including 1.2 million millennial and Gen X households versus a year ago, pointing to the strength of our cooking soups across cohorts.

In the ready-to-serve segment, the headwinds we experienced in the past quarters continued in Q1, with dollar share down in the quarter. On the positive side, Pacific and Rao's were strong performers, gaining share on both a dollar and volume basis. However, select price increases put pressure on our mainstream RTS portfolio consumption, resulting in market share declines.

In addition, our RTS results reflect the last quarter of impact from the discontinuation of Well Yes!. We believe that the pricing action is the right approach to be able to support this segment of our portfolio while we're experiencing disproportionate tariff-related inflation. However, we are conscious of the importance of providing appropriate value in the marketplace, particularly during the critical soup season.

Turning to slide 10, from holiday classics like the Green Bean Casserole to new and fresh recipes, side dishes made with Campbell's products were served at Thanksgiving tables across the country. Over half of our condensed soup portfolio is cooking soups, including soups like Campbell's Cheddar Cheese Soup used to make America's fastest-growing side dish preferred by Gen Z, mac and cheese. Our condensed cooking soups grew dollar share and consumption for the past five quarters, and we believe there continues to be ample opportunity for growth, driven by recipes for the holidays and everyday occasions.

Rao's continued its growth in both consumption and overall share. During the quarter, Rao's outpaced the Italian sauce category by delivering low single-digit dollar consumption growth with growth in both dollar and volume share and remained the number one brand in the category. We continue to be encouraged by the growth potential of this great brand, driven by sustained household penetration gains and high repeat rates, as consumers continue to prioritize elevated experiences at home.

Earlier this morning, we announced we entered into agreements to acquire a 49% interest in two La Regina entities, the privately held producer of Rao's tomato-based pasta sauces. Founded in 1972 with the philosophy of producing the highest quality Italian home-made premium and super-premium tomato pasta sauces, La Regina has been a key partner of Rao's since 1993. What makes Rao's the best pasta sauce in the world is the ingredients, the recipe and the care with how it's prepared.

Rao's sauces are simmered slowly and made in small batches with only the finest ingredients like Italian olive oil and naturally ripened tomatoes from Southern Italy. Rao's sauces have no tomato blends, no paste, no water, no starch, no filler, no colors and no added sugar. The result is an authentic nutritious, delicious tomato sauce consumers can rely on to serve as a restaurant quality meal at home. With this transaction, we are solidifying our strategic partnership with the Romano family to continue to fuel Rao's momentum.

Over the years, La Regina has perfected its proprietary cooking process, invested in state-of-the-art capacity and maintained a commitment to excellence, ensuring every jar of Rao's sauce delivers a premium and unique experience. Campbell's investment in La Regina secures access to unique high-quality ingredients, expands our

innovation capabilities and reinforces our commitment to producing Rao's sauces with only the finest ingredients. Together with the Romano family, we look forward to continuing this journey. We could not be more excited about the momentum and growth trajectory of our Rao's brand.

Now, let's turn to our Snacks business on slide 12. While snacking occasions are growing, consumer preferences continue to evolve to health and wellness and the desire for worth-it experiences, many of which are aligned with the consumer growth pillars I discussed earlier. We believe our powerful portfolio of brands remains advantaged in today's environment, especially in terms of premiumization and flavor exploration. We are taking steps to further improve the health and wellness benefits of our Snacks leadership brands, for example, by providing consumers with avocado oil in our chips portfolio, and we have an exciting innovation pipeline for both the short and long-term.

Organic net sales declined by 1%, driven by volume declines, which were partly offset by positive net price realization, reflecting pricing actions taken to address input cost inflation, primarily in cocoa and eggs. The headwind from partner and contract brands was about 1 point to net sales, as expected. The difference between the year-over-year decline in net sales and consumption is driven by shipment timing of holiday-related activities.

As shown on slide 13, we held or gained share in about half of our portfolio, with solid performance in Pepperidge Farm cookies, Snack Factory and Late July, and are focused on accelerating share recovery in pretzels and crackers. To support this momentum, we are prioritizing delivering clear consumer value, including leveraging price pack architecture, while accelerating our innovation pipeline. We're also strengthening in-market omni-channel execution with targeted activation during key drive periods such as the holidays and upcoming sport championships, where snacks play a big role in gatherings.

Let's talk more about our Pepperidge Farm fresh bakery and cookies business, which held share and was relatively flat from a consumption perspective. I will start with the stand-out performance in cookies, where we outperformed the category and gained share in both dollars and volume through successful innovation launches, including the fall LTOs like Pepperidge Farm Milano Pumpkin Spice, Milano Chai Latte and Soft-Baked Pumpkin Cheesecake.

The double-digit consumption growth we are driving in Milano continues to contribute materially to overall category growth for the third consecutive quarter. Within our fresh bakery business, dollar and volume share were both relatively flat. However, the overall category remained under pressure, as consumers are more selective in their purchases of fresh bread, favoring premium differentiated products. Our latest innovation in Farmhouse, Thin Sliced, is outpacing sandwich segment trends, delivering strong repeat rates, reflecting consumer demand for healthy products without compromising on taste.

Now, let's talk about our salty portfolio. In chips, we held share with relatively flat consumption due largely to sequential improvement in our Late July brand, as we continue to be well-positioned with consumers that are looking for better-for-you offerings. We're also benefiting this quarter from a club promotion that shifted into the first quarter from Q2 last year. Our Kettle Brand held market share, while Cape Cod lost share against the broader potato chips category.

In pretzels, we experienced overall share and consumption pressure, as strong performance of our Snack Factory franchise was not sufficient to offset the softness in Snyder's of Hanover. Snack Factory saw share and volume gains for the quarter, driven by the innovation of Pop'ums and Bites. Additionally, as consumers are increasingly seeking flavor experiences, our Pumpkin Spice LTO was a great driver of growth for Snack Factory in the quarter, and we are excited about the White Peppermint LTO that's on the shelves now, in time for the holiday season.

The softness in Snyder's of Hanover was driven by our intentional removal of less effective promotions, as well as continued competitive pressure. However, with core expansion at club, impactful holiday messaging and an upcoming new visual identity to drive shelf presence, we have a lot of conviction in both our pretzel brands.

Now, let's talk about crackers. In crackers, we are encouraged by Goldfish's successful back-to-school campaign, which beat key competitors in the 10-week back-to-school window. The success of the campaign helped Goldfish finish Q1 as the cracker share leader over the last 13 weeks. Despite the great back-to-school campaign, consumption declined in the quarter, which shows we still have more work to do.

I am confident that our strategy of incremental marketing support, exciting innovation and a strategic approach to value will return this flagship billion-dollar brand back to growth. As we enter the holiday season, our Snacks portfolio will play an important role in driving moments of connection and celebration. Our Pepperidge Farm cookies, crackers and bakery items remain a staple of holiday gatherings.

Additionally, we are leaning into holiday activations like White Crème and Peppermint Snack Factory pretzel crisps, Snyder's of Hanover holiday cabin kits and Brown Sugar Vanilla tortilla chips from Late July to capture heightened seasonal demand, while maintaining a sharp focus on execution and in-store displays. Collectively, these actions will position our Snacks business to deliver strong engagement throughout the season and support our broader commitment to consistent profitable growth.

Before turning it over to Todd, I would like to highlight again how we're delivering today while building for tomorrow. As the operating environment remains dynamic and consumer preferences continue to evolve, strong day-to-day execution is critical. Our portfolio is well-positioned. We remain confident in our leadership brands and our ability to serve delicious at-home cooking options, better-for-you options and elevated experiences that delight and excite consumers.

We are committed to crafting high-quality food at the right value with a continued focus on omni-channel execution, brand activation and innovation. Specifically, in Meals & Beverages, we remain focused on brands and offerings that will continue to shape at-home cooking momentum, because we believe it's a trend that's here to stay. While we continue to enhance our Snacks portfolio, reigniting Goldfish is a top priority. We continue to focus on productivity and cost savings initiatives across the organization to mitigate elevated inflation and invest in our brands, while we strengthen our overall foundation as we drive change to deliver sustainable profitable growth.

With that, let me turn it over to Todd.

Todd E. Cunfer

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

Thank you, Mick, and good morning, everyone. As Mick mentioned, our first quarter performance was in line with our expectations and reflected focused execution amidst a dynamic operating environment. At a high level, organic net sales decreased 1%. Adjusted EBIT decreased 11% to \$383 million, primarily due to lower adjusted gross profit, partially offset by lower adjusted administrative, marketing and selling expenses, while adjusted EPS decreased 13% to \$0.77. Now, let me provide more details on our financial performance and guidance.

Turning to slide 18, net sales were \$2.7 billion, a decrease of 3%. Organic net sales decreased 1%, primarily due to unfavorable volume and mix, partially offset by net price realization. On slide 19, first quarter adjusted gross profit margin decreased 150 basis points to 29.9%, driven by cost headwinds of 520 basis points, inclusive of cost

inflation and other supply chain costs, and the impact of gross tariffs. These costs were partially offset by cost savings and supply chain productivity improvements and favorable net price realization.

Gross tariffs had a 200 basis point negative impact on the adjusted gross profit margin in the quarter. In the first quarter, Campbell's made progress towards its fiscal 2028 cost savings target of \$375 million by delivering approximately \$15 million in new savings, bringing total cost savings achieved to \$160 million. The company intends to use these savings as one of several levers to help offset tariff headwinds. As we look at the second quarter, we expect an increase in both promotional activity and marketing investment to further strengthen top line performance.

Turning to slide 20, adjusted marketing and selling expenses decreased 2% versus prior year, primarily due to lower selling expenses, the benefit from cost savings initiatives and lower incentive compensation, partially offset by higher marketing expenses. Adjusted marketing and selling expenses were 9% of net sales, consistent with the prior year. In the second quarter, we expect marketing and selling expenses to be at the upper end of our targeted range of 9% to 10% of net sales.

Adjusted administrative expenses decreased 9%, mainly driven by the benefit from cost savings initiatives and lower incentive compensation. As shown on slide 21, first quarter adjusted EBIT decreased 11%, primarily due to lower adjusted gross profit, partially offset by lower adjusted administrative and lower adjusted marketing and selling expenses.

On slide 22, adjusted EPS decreased 13% to \$0.77, driven by lower adjusted EBIT. Lower interest expense provided a \$0.01 benefit, offset by a 60 basis point increase in the adjusted tax rate, which was EPS dilutive of \$0.01. The divestiture of noosa also had a \$0.01 negative impact for the quarter. As a note, the gross impact of tariffs to Q1 adjusted EPS was \$0.14, while the net impact of tariffs was \$0.04 to EPS for the quarter.

Turning to slide 23, Meals & Beverages first quarter reported net sales decreased 4%. Excluding the impact of the noosa divestiture, organic net sales decreased 2%, mainly driven by declines in US soup, Canada, SpaghettiOs, Pace Mexican sauces and V8 beverages, partially offset by gains in Rao's. An unfavorable volume/mix decline of 3% was partially offset by favorable net price realization of 1%.

First quarter operating earnings in the division decreased 13%, primarily due to lower gross profit and the impact of the noosa divestiture. Operating margin was lower by 190 basis points, primarily due to lower gross profit, inclusive of a 280 basis point gross impact from tariffs and cost inflation and other supply chain costs. This was partially offset by cost savings and supply chain productivity improvements and favorable net price realization.

On slide 24, Snacks reported a 2% decrease in net sales, which includes the impact of the Pop Secret divestiture. Organic net sales decreased 1%, driven primarily by lower net sales in third-party partner and contract brands, Snyder's of Hanover pretzels, fresh bakery, Goldfish crackers and Cape Cod potato chips, partially offset by gains in Pepperidge Farm cookies. Organic net sales were impacted by unfavorable volume/mix decline of 3% and favorable net price realization of 2%.

Snacks first quarter operating earnings decreased 10%, while operating margin decreased 100 basis points. The margin contraction reflected cost inflation and other supply chain costs, gross tariff impact and unfavorable volume/mix, which more than offset benefits from cost savings and supply chain productivity improvements and favorable net price realization.

Turning to slide 25, we generated \$224 million in operating cash flow in the first quarter, in line with prior year. We continue to prioritize reinvestment back into the business to drive incremental growth, with Q1 capital expenditures of \$127 million. We also remain committed to returning cash to our shareholders, with \$120 million in dividends paid and \$24 million in anti-dilutive share repurchases in the quarter. As of November 2, 2025, the company has approximately \$174 million remaining under its anti-dilutive share repurchase program.

Our net debt to adjusted EBITDA leverage ratio at the end of the first quarter was 3.7 times. We remain committed to deleveraging the balance sheet towards our goal of 3 times leverage. At the end of the first quarter, the company had approximately \$168 million in cash and cash equivalents and approximately \$1.4 billion available under our revolving credit facility.

With respect to the La Regina transaction Mick mentioned earlier, we anticipate closing in the second half of fiscal 2026. The transaction is expected to be neutral to the reaffirmed guidance for fiscal 2026 adjusted EPS. Further details on the acquisition can be found in the company's Form 8-K filed today with the Securities and Exchange Commission.

Based on the company's first quarter performance, we are reaffirming our full year fiscal 2026 guidance ranges provided on September 3, 2025. Fiscal 2026 guidance ranges are based on the exclusion of the additional week in fiscal 2025, which represented approximately 2% to net sales, 2% to adjusted EBIT and \$0.06 to adjusted EPS.

In fiscal 2026, we continue to expect a significant impact from tariffs. Gross tariffs are projected to be approximately 4% of cost of products sold, approximately 60% related to Section 232 steel and aluminum tariffs and the remainder largely from global IEEPA tariffs. We continue to expect to mitigate approximately 60% of this impact in fiscal 2026 through a number of actions, including continued inventory management, supplier collaboration, alternative sourcing opportunities, productivity and cost savings, and where absolutely necessary, surgical and responsible pricing actions.

I will close by saying that just 50 days in, I share Mick's conviction in the strength of our leadership brands, our capabilities and our people. Maintaining focus on our strategic priorities will be key, as we continue to navigate short-term macroeconomic challenges while investing to build long-term shareholder value. That concludes our prepared remarks.

Now, let's turn it over to the operator and begin the Q&A session.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question today comes from Tom Palmer from JPMorgan. Please go ahead. Your line is open.

Thomas Palmer

Analyst, JPMorgan Securities LLC

Q

Good morning, Mick and Todd. Thanks for the question. And Todd, welcome. I wanted to follow up on the [ph] La Romano (00:30:03) announcement. Perhaps, we could get some added detail on the reason for the acquisition and the timing, and also perhaps some added details on the option on the remaining 51%, such as how the purchase price would be determined. Thank you.

Mick J. Beekhuizen

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

A

Yeah. Good morning, Tom. And so, when I look at the La Regina investment, first of all, it obviously supports our conviction around Rao's, and as we've obviously talked in the past about sauce is boss for Rao's. So, partnering up with the proprietary producer of the tomato-based sauces is absolutely critical from my perspective. Rao's has had a long relationship with La Regina, as I described earlier. And since the acquisition, we've also been developing that relationship with the Romano family.

This investment is really strengthening that partnership with both La Regina, but also with, as you're pointing out, the Romano family, and I'm really looking forward to bringing that relationship to the next level. On the one hand, it's obviously secure supply. And we describe a lot of the uniqueness of the product, and we've talked about that. It's obviously a key component of Rao's and Rao's growth, the unique ingredients, but overall also the process with which we're making the sauce and with which the sauce is cooked, as we described earlier.

So, making sure that we have supply of the high-quality Rao's sauce is absolutely critical. That's what this investment helps us with. That's what this supports. It kind of supports the overall conviction around the growth story. On top of it, also the partnership with the Romano family will allow us to continue to work closely together in areas like innovation, really a kind of mutual interest in order to continue to support the growth of this amazing brand, which I personally think has a long way to go.

And if you look at – we obviously described some of the details. We're currently acquiring 49% of La Regina for \$286 million. It represents a high single-digit EBITDA multiple, and as Todd also described in his prepared remarks, we expect it to be EPS-neutral in fiscal 2026. I personally think this comes at an opportune time, where we have integrated the Rao's acquisition and we have continued to build this relationship – back to your question around timing, we've continued to build this relationship, and as a result, this is a very logical, call it, like addition to building that overall conviction around the Rao's brand. I don't know, Todd, any additional thoughts around the option that we have?

Todd E. Cunfer

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

A

Yeah. So, just to be clear on the timing, so the first payment – again, we anticipate closing sometime this – the second half of this year, \$146 million cash payment immediately. One year later, there'll be a second payment of

\$140 million. That gets to the \$286 million for the 49% ownership portion. After that first year, we do have a call option. We can purchase the remaining 51%.

There will be likely a premium, depending on the performance of up to 20% of premium on the second half of the piece. The valuation approaches around \$600 million ultimately if we exercise that option. And the Romano family can put – has a put option four years after we close on the transaction for us to purchase the remaining. So, again, about – close to around a \$600 million ultimate valuation. As Mick pointed out, high single-digit multiple. Just super excited about this opportunity. It's going to be a great partnership. It's going to improve the margins of the Rao's brand. So, it's a win-win for everybody.

Thomas Palmer

Analyst, JPMorgan Securities LLC

Q

Great. Thanks for all the detail.

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

Andrew Lazar

Analyst, Barclays Capital, Inc.

Q

Great. Thanks so much, and welcome, Todd. I think last quarter, Campbell's spoke about its intention to stabilize the Snacks segment in the second half of the fiscal year. And it looks like that's – you're still expecting that to be the case. I guess based on the data we can all see, it doesn't seem that trends improved maybe as much sequentially in the fiscal first quarter as you might have expected. I was hoping you could go through what gives you the conviction in a back half stabilization. And how do you think this is impacted, if at all, from a key Snacks player talking more about affordability going forward? Thanks so much.

Mick J. Beekhuizen

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

A

Yeah. Thank you, Andrew. So, maybe stepping back first with regard to the overall categories, and when I look at the Snacks categories that we participate in, in the aggregate, the dollar consumption trend was sequentially relatively stable, i.e., it didn't deteriorate further for the third quarter in a row. So, I do expect, as a result, that you're basically going into next quarter, you're going to continue to see that category pressure, and I don't expect that to immediately change within the next couple of months.

However, as we're getting into the second half, arguably comps should become a little bit easier, and that should allow categories overall to start to stabilize. That being said, we're – obviously, as I described also during my prepared remarks, we're focused on what we control, and we clearly see that snacking is evolving. And I described it extensively in my prepared remarks, but like we are very focused on making sure that we continue to evolve our portfolio with that. When I look specifically at our portfolio performance in Q1, if you look at bakery and cookies, one of the things that actually worked well is the innovation and particularly the cookie innovation, and that really is something that we got to make sure that we keep that momentum going.

If I look within salty, within chips, some benefit from timing of certain promotional activities. So, I expect that we're going to continue to feel a little bit of pressure on chips. Also, a relatively competitive, call it, like subcategory within salty. Within pretzels, we have great results around Snack Factory. They're really encouraging. We got to make sure that we keep that momentum going, a lot around innovation, but also in-market execution. With regard to Snyder's of Hanover, we still got some work to do.

And then, when I look at crackers, which is the third major category within our Snacks portfolio, it's really coming back to making sure that we reignite Goldfish. Now, when I look at Goldfish in Q1, as we also described, the back-to-school performance was quite good and encouraging, really also focused back on price pack architecture. I mentioned that in the past and the importance of that during the right moments, making sure we provide the right value to the consumer, and that came through with the multipack execution during the back-to-school period. So, there's definitely some green shoots throughout.

That being said, making sure that, for instance, we are getting Goldfish back to growth is absolutely critical for not only the cracker – performance within our cracker category, but also more broadly within our Snacks portfolio. So, that's something that we are very focused on. When I look at Q1, we made some progress. We got still more work to do. As I pointed out, there are some proof points that we are going to continue to amplify throughout the year. I also think it's going to be really important to make sure that we see some of these proof points come together in Q2, and that will inform us around the second half trajectory of our Snacks business. So, hopefully, that gives you a little bit of context...

Andrew Lazar

Analyst, Barclays Capital, Inc.

Yeah.

Q

Mick J. Beekhuizen

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

...around kind of our performance.

A

Andrew Lazar

Analyst, Barclays Capital, Inc.

Yeah. Thank you so much.

Q

Operator: Our next question comes from David Palmer from Evercore ISI. Please go ahead. Your line is open.

David Palmer

Analyst, Evercore ISI

Great. Thank you. Just a follow-up on salty snacks, and I know you won't be surprised to hear that people are really thinking about megatrends with regard to salty snacks right now. And obviously, GLP-1 usage, people are concerned that that's going to be ramping into 2026. And then, of course, there's that issue that some cite about COVID-era overpricing, just a hangover, particularly within certain income cohorts.

I'm wondering if you feel like these factors are relevant more to some subcategories. I know that salty snacks right now overall is up 1% in the latest dollar sales that we see ending November 30. So, it doesn't look like it's that bad of a category. So, it's a little bit confusing to – it sounds worse than it is, so to speak. But I'm wondering how you're thinking about those megatrends and how they might interact with certain sub-segments and how you're...

Q

Mick J. Beekhuizen

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

Yeah.

A

David Palmer

Analyst, Evercore ISI

...perhaps thinking about that going into 2026. So, thanks.

Q

Mick J. Beekhuizen

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

Yeah, yeah. Thanks, David. It's something that we are very focused on, and you heard me talk a little bit about this in the beginning of the prepared remarks as well. And I really – kind of that focus on the consumer value across those different occasions or those distinct needs, as we described it on one of the pages, is really the way that we are approaching it.

A

First of all – and this has been a focus since I became the CEO – was really making sure that we elevate the focus on the consumer needs across the organization. You see that come through in these different megatrends that we've identified around whether it's premiumization, flavor exploration, health and wellness, and cooking and comfort. For snacking specifically, people are still snacking, as you're describing. However, snacking is evolving, and we see that really taking place within those three key pillars that I described earlier, whether it is that – elevating the experience or people want an exciting experience, which comes back to premiumization or flavor exploration, or the focus on health and wellness.

And our brands – our, call it, premium snacking brands really have a place to win within those different trends. We just need to make sure that when we innovate, we're very conscious of what the consumer is looking for. So, that allows us to continue to evolve our portfolio. And at the same time, from a messaging perspective, when we communicate or connect with the consumer, we need to make sure that we bring it back to these core focus areas that we know the consumer is focused on. So, we're working through that, and definitely, some areas are working. Others, we've got some more work to do. The one thing that is an overarching, call it, like important piece that I pointed out also when I talked about Goldfish is to continue to focus on [ph] value (00:42:39). And that, you see across the overall consumer spectrum, and that's something that goes for both divisions.

David Palmer

Analyst, Evercore ISI

Thank you.

Q

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

Robert Moskow

Analyst, TD Cowen

Hi, folks. Thanks for the question. I guess I really have two.

Q

Mick J. Beekhuizen

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

Hi, Rob.

A

Robert Moskow

Analyst, TD Cowen

I wanted to know – Mick, you said two things about the soup business. You said that it's important for you to raise price to cover costs, but also you recognize the importance of providing value and that there's been...

Q

Mick J. Beekhuizen

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

Yeah.

A

Robert Moskow

Analyst, TD Cowen

...some share losses in eating soup. So, these two things kind of clash with each other.

Q

Mick J. Beekhuizen

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

Yeah.

A

Robert Moskow

Analyst, TD Cowen

Do you think you'll need to improve affordability of eating soups? And how have competitors responded to the price increases?

Q

Mick J. Beekhuizen

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

Yeah, yeah. So, definitely something we're very conscious of, right. And by the way, Rob, maybe stepping back for a minute, if you look at our total soup portfolio, obviously, on the one hand, cooking, cooking is really working, and you're really – we're really feeling some of that pressure on the eating side. Within cooking, that's really coming back to broth, on the one hand. We are seeing, by the way, that private label is recovering. And as a result, although I still expect continued, one, growth of the category, but also growth for us, I do expect that we're going to feel some of that share pressure that we've talked about in the past to start to materialize as private label continues to recover.

A

Now, from a condensed perspective, the condensed portfolio is really split in two. And it's interesting when you peel that back and you really see the growth on the cooking side of condensed, which is really back to a lot of the creams, for instance, that are being used in recipes as ingredients. And then, some of the more eating focused – oriented products within our condensed portfolio, that's where you're feeling some of the pressure in general.

Then, when I get to RTS or ready-to-serve soups, which is a broader portfolio for us, right, that includes Chunky, it includes Homestyle. It did include in the past Well Yes!, which we've now discontinued. That's where we felt the most pressure, which is, on the one hand, because of what I described earlier, a little bit of that pressure on eating soups in general. And then, in combination with some of the pricing actions that we have taken that – listen, we've taken them. We talked about it last quarter. We've been really surgical about it. But because of the disproportionate inflation, we did believe it was important to implement some of the pricing.

Elasticities have materialized the way that we expected. We also believe that it's important for, as you're pointing out, the long-term value of our brands, although in the short term and particularly during the beginning of this quarter, it's definitely led to some pressure from a consumption as well as overall share perspective, which you saw on one of the slides. Now, that being said, we're also very conscious to bring it back to your piece around value is important and value is important when it really matters. So, going into the soup season, we have taken selective incremental actions in order to make sure that we are competitive in the marketplace. And if you look at the [ph] L4 (00:46:17) trend, you actually see that RTS is growing slightly and that share declines are much more subdued.

Robert Moskow

Analyst, TD Cowen

Q

Okay. In the interest of time, I'll take my second question offline. Thanks.

Mick J. Beekhuizen

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

A

Okay.

Operator: Our next question comes from Michael Lavery from Piper Sandler. Please go ahead. Your line is open.

Michael S. Lavery

Analyst, Piper Sandler & Co.

Q

Thank you. Good morning. Just wondering if you could...

Mick J. Beekhuizen

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

A

Good morning.

Todd E. Cunfer

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

A

[ph] Good morning (00:46:44).

Michael S. Lavery

Analyst, Piper Sandler & Co.

Q

...come back to La Regina for a minute. You mentioned the margin benefit. But I suppose at 49%, would that still come through in operations or would that only occur after – if and when you have full consolidation? And then, in either case, maybe could you just touch a little bit on what, if any, implications the deal has for top line momentum? It's always been a strong brand. But it is certainly – as it gets bigger and bigger, grows a little bit more slowly. How do we think about just what you can do to keep the momentum going on the strength of the top line as well?

Mick J. Beekhuizen

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

A

Maybe I'll start off with the top line, and Todd, if you can then add a little bit around the consolidation piece and the margin piece. So, from an overall growth perspective, you did see that we continued to have growth this past quarter. We talked about this in the past as, call it, mid to high single-digit growth, as has always been the focus going into this fiscal year. We had 4% consumption growth this past quarter. A little bit of timing of promotional activity between Q1, Q2, and I still am very comfortable that we're going to see that mid to high single-digit growth trajectory materialize.

Todd E. Cunfer

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

A

From a P&L impact, because of the call option that we have, we will actually consolidate 100% of the P&L on – into our business. So, we will get the full gross margin impact. It'll be significant for Rao's. Obviously, not terribly

significant for the entire company, but we'll have a very favorable impact on the brand. We will then back out 51% of the earnings of La Regina through a minority interest line. And then, obviously, we'll have any additional interest expense coming through as we finance the purchase. As we talked about earlier, for this year, it should be a washed EPS. Over time, obviously, we believe it'll be accretive.

Michael S. Lavery*Analyst, Piper Sandler & Co.*

Q

And could I add a quick follow-up? If that's the case, then – and you've got greater margin opportunity and flexibility, does that do anything to impact how you might think about funding A&C?

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

A

It gives us – more to come, Michael. It gives us obviously flexibility from lots of aspects to invest in the business as you intimate, innovation, channel strategy. It just gives us a lot more flexibility on the brand. And so, we think it's going to be a great impact for us.

Michael S. Lavery*Analyst, Piper Sandler & Co.*

Q

Okay. Thanks so much.

Operator: Our next question comes from Peter Grom from UBS. Please go ahead. Your line is open.

Peter Grom*Analyst, UBS Securities LLC*

Q

Great. Thanks. Good morning, everyone. I hope you're doing well. So, Todd...

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

A

Good morning.

Peter Grom*Analyst, UBS Securities LLC*

Q

...I kind of had a broader – I had a broader question for Todd. And I guess, I know it's only been a few weeks. But maybe just some initial perspectives, as you step into this role, kind of where you see the biggest opportunities for improvement [indiscernible] (00:50:14) where you see them today, and whether that'd be in growth, profitability, cash flow, what kind of stands out to you?

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

A

Yeah. Look, I took this position for a couple of reasons. One is, I think, the brands are just incredible, powerful, absolutely have a right to win, slightly declining today, but very confident they're going to be growing in the future. And I want to be a meaningful part of that. The people here that I met through the interview process, amazing. And as I continue to meet more people through this organization, the people here are just terrific, and that's – quite frankly, when you work every day, that's 80% of the battle coming in and making sure you're working with people that you really appreciate and want to work with.

Look, this is a big business. It's a complex business. I think I can add value in streamlining analysis, making sure we focus on the right things, making sure we have the right people working on the right things, making the right investments. Having worked for 20 years for a similar sized company, that being Hershey, and then working for two \$1 billion companies over the last eight years, gives me, I think, a unique perspective on both larger cap food companies and then the advantages of smaller companies who are higher growth and how they think, how they act and how they're more nimble. So, hopefully, I can bring some of that perspective to the company over the next several years.

Peter Grom

Analyst, UBS Securities LLC



Great. Thank you so much. I'll pass it on.

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

Jim Salera

Analyst, Stephens, Inc.



Hey, [ph] Mick and Todd (00:52:05). Thanks for taking our question. Mick, I wanted to maybe circle back on Goldfish, because it sounds like that's going to be really the key lever to reigniting the Goldfish segment growth as a whole. Can you just walk us through – has Goldfish lost households or have you seen consumption frequency step back among existing households? And maybe if you could give us some detail on what the focus of the incremental marketing is going to be there.

Mick J. Beekhuizen

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



Yeah, yeah. Sure. So, you're absolutely right. Making sure that we get Goldfish right is really important. Obviously, one of our billion-dollar brands across our broader portfolio and making sure that we have that growth back will help Snacks, but obviously it will help our broader organization. When I look at the Goldfish itself and I look at kind of these key focus areas, first of all, maybe specifically to your question, household penetration, relatively stable. It's really buy rate that we felt a little bit more of the pressure.

When I think about what are you, as a result, going to do about it, making sure that we provide, one, a clear message with regard and reminder of what Goldfish is and that Goldfish is here and that Goldfish – and what Goldfish provides. At the same time, from an innovation perspective, making sure that we give people also choices within the Goldfish portfolio. And one of the examples of that is, for instance, the Goldfish pretzel innovation that is coming out. So, making sure that we provide kind of the full power of the franchise is really important in order to support that buy rate, in combination with reminding people what Goldfish stands for.

At the same time – and so, that comes back to innovation, brand, messaging. At the same time, as I described earlier, and I described this also in the past, is price pack architecture, I think, is really important, which brings it back to making sure that we have the right value at the right moment. And that's something that we're very focused on across not only Goldfish, but the broader portfolio. But that also is really important for Goldfish itself, and a proof point of that is what you saw with the multipack growth during the back-to-school period this past quarter.

And then, the last thing that I'd say is, call it, like the daily blocking and tackling. I referred to omni-channel execution in my prepared remarks as well. I really look at it as making sure we have a really good execution in the

marketplace is absolutely critical. So, it's really those different components that should allow us to get back to growth with Goldfish, in a brand that arguably has a right to win in the marketplace.

Jim Salera*Analyst, Stephens, Inc.*

All right. Thank you. I'll hop back in the queue.

Operator: Our next question comes from Chris Carey from Wells Fargo. Please go ahead. Your line is open.

Chris Carey*Analyst, Wells Fargo Securities LLC*

Hi. Good morning, everyone. I wanted to ask about margins. I think this is a historically low gross margin in the quarter going back some time. And so, I wanted to get a sense of how the quarter, from a gross margin perspective, has come in relative to your own expectations, and whether you think that the rest of the year gross margin relative to current levels, whether on an absolute basis or a year-over-year basis, see some steady improvement.

And I ask that in the context of, I think, this is going to be the peak inflation quarter, relative to full year guidance anyways, and there potentially is some relief through the rest of the year. So, it's kind of how it came in relative to expectations and phasing from here. And then, as you look at the business and you've handled this inflation cycle, just any thoughts on the prospects for margins over time? Thanks so much.

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

Sure. Look, so obviously incredible inflation both from just normal inflationary input costs, labor costs, plus a very large impact from tariffs in the quarter and throughout the majority of the year. So, it came in exactly as we expected it would be. And as we had in our slides, over 500 basis points of total cost pressures, with 200 basis points approximately of that being tariffs. Inflation, throughout the entire cost system, also was a similar amount to the tariffs for the quarter. And then, we had incremental depreciation, higher logistics costs, a number of other items that put some additional pressure on it. Now, the good news is the supply chain team is doing an incredible job and was able to offset 70% of those costs. So, kudos to them. We would be in much worse shape if not for their incredible efforts.

This inflation will remain for the vast majority of the year. It'll be a similar impact in Q2. Just FYI, gross margins, which was down 150 basis points in Q1, will be down a similar amount, maybe even a little bit more in Q2. Probably will get a little bit better as we get into Q3. And then, as we begin to lap some of the tariff impacts that we started to have in Q4 and some of the cost improvement opportunities that the supply chain is working on now come to full fruition, we will – as second half comes together, we will see improvement throughout the quarters, particularly in Q4, again, because we will be lapping some of those tariff impacts. Look, we're not happy about where the gross margins are, clearly. We know we need to get them well above 30% over time, and we have a number of cost initiatives in place to ensure that happens.

Chris Carey*Analyst, Wells Fargo Securities LLC*

Okay. All right, great. Thanks so much.

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

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