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# Campbell Soup Co. (CPB)

Bank of America Consumer & Retail Conference

## CORPORATE PARTICIPANTS

### Mark A. Clouse

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

### Carrie L. Anderson

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

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## OTHER PARTICIPANTS

### Peter T. Galbo

*Analyst, BofA Securities, Inc.*

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## MANAGEMENT DISCUSSION SECTION

### Peter T. Galbo

*Analyst, BofA Securities, Inc.*

Good morning, everybody. My name is Pete Galbo. I'm with the Food and Beverage team here at BofA. We're delighted to be joined at the conference this year again by Campbell Soup Company, \$9.3 billion in revenues, market leader in soup, pasta and pasta sauces as of this morning as well as Salty Snacks. This morning so, Campbell's closed on the acquisition of Sovos Brands for \$2.7 billion. So, Mark, congrats on the check.

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### Mark A. Clouse

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

Thank you. I was up early this morning writing checks. It's – happy to do it.

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### Peter T. Galbo

*Analyst, BofA Securities, Inc.*

I'm joined on stage today by CEO, Mark Clouse, CFO, Carrie Anderson, and then we're also joined by Chief Investor Relations Officer, Rebecca Gardy. Welcome, all.

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### Carrie L. Anderson

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

Thank you.

## QUESTION AND ANSWER SECTION

**Peter T. Galbo**

*Analyst, BofA Securities, Inc.*

Q

Thanks again for being here at the conference. So, Mark, maybe I'll just kick it over to you. You made some headlines this morning, the deal is closed. So maybe, you can just kind of give...

**Mark A. Clouse**

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

A

Yeah.

**Peter T. Galbo**

*Analyst, BofA Securities, Inc.*

Q

...what you're seeing in Sovos in recent months? And again...

**Mark A. Clouse**

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

A

Sure.

**Peter T. Galbo**

*Analyst, BofA Securities, Inc.*

Q

...congrats on closing.

**Mark A. Clouse**

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

A

Sure. Yeah. No. Excited to get to this state, a little longer than I would have loved to. But I think what you can ascertain from the timing and the sequence of events is that, it was a very constructive dialogue with the FTC. Even with the second request, I think, we were able to kind of move through that in a rather expedited way. And so, thrilled to get there.

I think one of the things that's been a bit surprising to both Carrie and I is, as we now go back and put all the pieces together, is that the economics of the deal by being four months later have significantly improved even further. I felt great about where they were before, but with a little bit of the run rate on the business and a big testament to the Sovos team, whether it's multiple, whether it's speed-to-accretion, even interest rates, all are better. Maybe Carrie, jump in a little bit on the interest rate side.

**Carrie L. Anderson**

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

A

Yeah. So we put in a \$2 billion delayed draw term loan agreement in October. It would give us flexibility to close at a moment's notice. So we closed the transaction using that facility as well as commercial paper. And then, we will bridge to put the permanent financing in place. But we'll do that at a point where we feel markets are conducive and hopefully, that won't be too long. But we'll work with our relationship banks to put that in place. There will be obviously, a little bit of negative interest rate carry during that time. We've got the deal closed on the delayed term loan. But as Mark indicated, seeing some favorable interest rates, we have hedged a portion, about

\$1 billion – we hedged some of those interest rates. But generally, as I think about where our markets are right now for interest rates, I think we'll do a little bit better than what we had contemplated back in August, which is great to see.

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**Mark A. Clouse**

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

A

Yeah. So I think that's all good news. But probably, the best news is just the continued success on that business. It's in the environment of food that we're in right now. It's astounding really. They just, before closing, you would have seen probably last week that Sovos released their Q4 and full year results and the momentum continues to be extremely strong.

I mean, they were in the 20s overall, growth rate, 30s on sauce. And most of that is volume driven and that is a unique animal in the world we're in right now. And so very, very good to have that. I think also incredibly encouraging is how well they're doing on Rao's Frozen. That's a tough category. I know that one well, but both the meals and the frozen pizza, both doing extremely well. Soup is doing really well. When you put that in our portfolio and you compare kind of ready-to-serve, it's a pretty significant impact about a share growth – 1-point of share growth that we add to the portfolio.

So, it's just – it's an unusual opportunity to be able to acquire such a scaled growth engine that is so uniformly complementary to our business. You would have seen in the announcement today, one of the things that we're doing is setting up what we're calling the Distinctive Brands Unit. I'm really excited about Risa, who was the General Manager on Rao's for many, many years. You may not remember this all the way back, but also ran Birds Eye for me when I was at Pinnacle. So, glad to have Risa back in the band.

But Risa's a terrific leader and we're going to move Pacific actually over into Distinctive Brands. So, it operates very much in a similar manner. And so, you've got this Meals and Beverage division now that's got this very, very strong iconic core brand mainstream business and this Distinctive Brands, that's essentially the upper end of each of the categories we're in. Right? Think soup, Italian, not yet with a Mexican or Hispanic, not yet. But an opportunity to continue to really build out this category model. And what's important about that is, it is absolutely imperative that we do not take one inch off the gas pedal on our Condensed and Ready-to-Eat Soup business, our Prego business. And by setting it up the way we are, we're really ensuring that we've got dedicated leaders.

Sometimes in the past, when I've – you could argue, well, why not put Italian together and let someone run kind of Prego and Rao's together. My experience has been that, you kind of can't help but migrate to the shiny new object, and the unintended consequence of that can be a little bit of a distraction on the base business.

So I think, the way we're operating it, they'll work very well together and I think, in a great position. So all-in, we're really thrilled about this and excited about the important next chapter and sets up the company, I think with a really compelling one-two punch with Snacks, Advantaged Snacks portfolio with great self-help margin story, a Meals and Beverage business now, if I layer just the growth of the fourth quarter, their fourth quarter on our second quarter adds 4 points of growth to the Meals and Beverage story. So, now you've got this kind of sustainable growth center store business in grocery, really puts us – positions us well for the future.

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**Peter T. Galbo**

*Analyst, BofA Securities, Inc.*

Q

And so, Carrie, maybe, are there any just considerations we should think about now the deal is closed...

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**Carrie L. Anderson**

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

Yeah.

A

**Peter T. Galbo**

*Analyst, BofA Securities, Inc.*

...kind of the differences in accounting between the two models?

Q

**Carrie L. Anderson**

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

Yeah. So, for those of you that followed Sovos, when they do their GAAP to their adjusted reconciliation, there's a couple of buckets that you just have to be mindful that more mature CPG companies do not adjust for a couple of these items. The first one is stock-based compensation, right? Sovos would have adjusted that out of their adjusted results. We do not. So, you need to make sure that you're factoring in that stock-based compensation.

And the last one is related to purchase accounting. So we'll put – as we think about that \$2.7 billion, we'll allocate the purchase price. A portion of that will be ascribed to intangible assets. Those will go on our balance sheet and we'll amortize those in. Sovos who is a very highly acquisitive company in and of itself, had its own intangible expense. But again, they adjusted that out in their adjusted results, out of their GAAP results. So that's again – you have to make sure you've added that back in as well.

And so, as we talked about back in August, when we announced the deal, we had talked about an accretion timing to get to accretive by the end of year-two. Those two buckets of cost are comprehended in that accretion timing. But as Mark indicated, as we now get Sovos under wraps here with us and we take a look at their forecast, I think our view is is that the economics of the deal look better. And so, we'll be able to update our timing of thinking about accretion dilution here on our third quarter call.

**Peter T. Galbo**

*Analyst, BofA Securities, Inc.*

So, Mark, we were joking in the last meeting that, a year ago on stage here, we talked about Premium Pasta Sauce as kind of the category. And, now, we're talking Mexican Sauces. Maybe that'll be next but...

Q

**Mark A. Clouse**

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

Oh, Lord.

A

**Peter T. Galbo**

*Analyst, BofA Securities, Inc.*

...maybe just to hone in on Rao's a bit, it's been such a distribution story, but also a household penetration story. Can you just kind of give us a framework where are we on distribution? Where could we get more on household penetration?

Q

**Mark A. Clouse**

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

I think what is so impactful or powerful about the more recent trends on Rao's is that, you see them growing on both fronts. So you see distribution runway still being an opportunity and you still see household penetration,

A

which manifests as velocity increases, among other things. But you see both elements working well. And as I've often said, when you would look at the shelf set for Sovos or for Rao's, and you look at the full range of existing items, there is still a large part of the country that now may have marinara or some of the base items, but may not have the full range. And the opportunity to build out the footprint of the portfolio, given the velocities of the items, is a tremendous incremental opportunity for further growth.

By the way, it doesn't really go north of the border yet. And I still think that although Pasta Sauce is not a giant category in Canada, Canada traditionally migrates into certain categories through a more premium offering. So there's great opportunity there geographically as well. We've got a super footprint there, really good team in Canada. So, there's a variety of options that we've got, I think, for continued expansion.

I think the other part of the equation is what I said earlier about the success on the Frozen side and the opportunity that's really just getting started. And so, the ability to imagine a growth rate moving forward on that front is pretty exciting as well. And again, I would be remiss, if I didn't – every time I'm in a public place, [indiscernible] (00:10:58) that we will not change the sauce that goes out there, including my own family, if you're listening. But...

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**Peter T. Galbo**

*Analyst, BofA Securities, Inc.*

Q

They're listening.

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**Mark A. Clouse**

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

A

...there's a lot – a lot of good runway ahead. And we're very excited about that. And look, I get asked about other categories that you could see, Rao's potentially moving into and, my short answer is, lot of good runway in existing categories. But could you ever imagine something in bakery that's in Rao's maybe? Maybe, we'll see.

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**Peter T. Galbo**

*Analyst, BofA Securities, Inc.*

Q

We'll look forward to the planned visit to Italy.

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**Mark A. Clouse**

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

A

Yeah. Investor Day at Naples.

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**Peter T. Galbo**

*Analyst, BofA Securities, Inc.*

Q

Yeah. I think that would be a...

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**Mark A. Clouse**

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

A

I think you guys would love it actually. It's a fascinating, as you might imagine, a critical element in making the decision to purchase this, especially at the price we bought it for was really understanding the uniqueness of how the sauce is made.

And, truth be told, I've tried to copy it for five years and couldn't. And we tried to figure out why. And when you go and visit, you see why. It is this – it's like a industrialized Mom & Pop kitchen. It's the [ph] Romano (00:12:16) family. They live at the plant. They are incredibly skilled culinary, but also, extremely creative, industrializing this. Rao's is a \$750 million-brand on its way to \$1 billion. And you still have Grandma Romano, 85-years-old, riding her bike around the plant, yelling at people to get back to work. I mean, that's not exaggeration. So you can't make that up. So it really is a special product. And trust me we will leave it that way. So, happy -happy to, happy to.

**Peter T. Galbo**

*Analyst, BofA Securities, Inc.*

Q

Maybe just one last question on the Sovos deal. Just Noosa, there was a line...

**Mark A. Clouse**

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

A

Yeah.

**Peter T. Galbo**

*Analyst, BofA Securities, Inc.*

Q

...in the press release, and I think, you spoke a little bit about evaluating strategic options there...

**Mark A. Clouse**

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

A

Right.

**Peter T. Galbo**

*Analyst, BofA Securities, Inc.*

Q

...that can help accelerate the...

**Mark A. Clouse**

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

A

So, look, I think, I – of the things I've been surprised by getting into this transaction is actually, how good the Noosa business is, both from a product, if you've never tried it. It's I mean, everything from the base yogurt to the gelato, the frozen gelato, that salted caramel gelato. Very good. So it's a great product. It's a great team. What we're going to do is, we're going to kind of keep it as a standalone business unit, but report it into the Distinctive Brands. Risa knows the business and the team that's there. We've got a great leader on the ground. We're not going to miss a beat there and continue to support it, while we evaluate what strategic options look like.

I continue to feel like, as much as I like the product, I'm not sure yogurt long-term is a core category for us. But what I will say is that, the confidence that I have in the business affords us optionality and the ability to be patient and make sure that we find the right answer to that question. So, for all intents and purposes, for now, it's business as usual. And again, I'm very grateful for that team that we've got out in Colorado, making extraordinary product.

**Peter T. Galbo**

*Analyst, BofA Securities, Inc.*

Q

Great. So, speaking of strategic decisions, I know that on the last conference call, there was a bit of a kerfuffle when you mentioned strategic alternatives in the company. There is from time to time always comes up the thought of splitting the Snacks and the Meals and Beverage business. And I think that was a lot of what came out of the call. So, I mean, I'd love to give you a chance to clarify or expand upon that.

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**Mark A. Clouse**

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

A

It must have been a slow news [ph] day (00:14:54), kerfuffle, I mean, used – I think that's a really. So look, I think that was a circumstance of a little bit of probably I could articulate it a bit better. But also, a bit of a recognition of kind of where we are a little bit in our journey on the divisions. But let me start with the short answer, which is, I see no added value – I see tremendous value of keeping the business together. I don't think in any way, shape or form today is a day to be thinking about splitting the company.

I think we're in a great position. We're integrating Sovos. We've got these businesses really pointed, I would say, in the strongest way we've had in a long time. I think what perhaps the unintended dynamic was my answer to that question historically has always been that, if we ever were to do anything, non-organically, I'd want to do it from a position of strength when the divisions are standing squarely on both feet. And I gave that answer, and then, it occurred to me that I had spent the last 30 minutes explaining why we're squarely on both feet in the division and perhaps the unintended consequence was linking the ideas.

But look, we feel great about where we are. But I also don't want to walk back for a second, the point that I was making on the willingness of our board to always look at strategic optionality and value creation among shareholders. I think many of you probably, like I did when I started, wanted to understand where the appetite was and how does the board operate, very strong long time presence of the family. And I can tell you without any reservation that every year, we go through a very disciplined process of valuing our strat-plan and then looking at strategic optionality, including the sum of the parts. And what the split of the company could look like to make sure that we're always making the right decision. That happens every single year.

And right now, I think the answer is full steam ahead on the strategy we're on. But if that ever changes, we will absolutely look at that. So, I don't want to throw any cold water on that. But in fairness, it may have come across a little bit more, today's the day and it's not. So, thank you for that opportunity. And my apologies if I walked anyone astray. But I feel great about where we are now, while also always being open to evaluating things.

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**Peter T. Galbo**

*Analyst, BofA Securities, Inc.*

Q

Helpful. Maybe we can pivot to Snacks. There's been, I think, a lot of questions around just consumption in the category and Salty in particular has slowed. Just kind of what you're seeing. I know you have some thoughts kind of on what could happen over the summer, but just kind of give us an overlay?

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**Mark A. Clouse**

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

A

Yeah. I think all of us are kind of in this moment right now of trying to digest arguably the most complex set of stacked variables in food of a long – any time, I could remember. And I think that, what I would tell you, as we look at this, first from the macro kind of economic perspective or consumer sentiment, there's a lot of reasons to believe that that improvement is building momentum and that there's a lot to believe in. And the fact that consumer sentiment is up, the household penetration in many categories that had been on a decline, pivoted in the second quarter for us. There's also, I would say, a fair amount of progress in the number of categories that

consumers are buying. That the size of the basket, the number of servings that are being purchased. These are all good indicators, historically speaking, as kind of harbingers of improvement in category trends.

I think though, what makes this moment a little bit more unique than perhaps prior and why it may be a little bit tougher to pinpoint certain dynamics is two reasons. One, if you're in the middle- to lower-income households, this is probably one of the most sustained periods of challenge that has been experienced. Right? Because if you still ask, 8 out of 10 consumers would tell you that they were soft today, than they were a year ago.

The credit card debt that the country is carrying is higher interest rates, although improving, certainly haven't fully retreated. And so, if you're in that demographic, this has been a sustained period of pressure. And so, not surprisingly, your return to normality may be on a little bit of a slower pace. I think, what's interesting is when you look at our brands that tend to index to higher income households. So, think of Rao's, for example, or Pacific. I mean, we just talked about the trends. These businesses are like rocking and rolling full steam ahead.

But as you start to move down into the portfolio, to more middle income to lower income, we still see a little bit more pressure. Now, the snacking debate, there's a couple things to remember. So let's put point one as, I don't think it's a matter of if it's more when, but we have to be mindful that there is an important part of the consumer landscape that's still feeling a lot of pressure. And even if that is the residual pressure of a couple tough years, a little bit harder to know exactly when or how that may pivot.

But again, I think, if I look at all those variables, it truly is a question of when, not if.

On snacking, a couple things to remember that's unique. The first thing I just would say is, every time I get nervous and I do get nervous when I look at recent trends, I remind myself that on a two-year basis, these categories and businesses are on an 8% growth CAGR. My Power Brands are on a 12% growth CAGR over the last couple years. And what's important about that is, when foods started to slow down, snacks was the last segments to experience any slowdown.

In fact, in the third quarter that we're in right now, as you might have heard us say many times, we're cycling double-digit growth in the company for the first half. We dropped to mid-single digit growth in the second half of this year. However, within that is a Q3 that snacks was still growing double-digits. And so, snacks really hung on the longest. And so, the fact that, that as we start to see some improvement in certain categories, snacks still looks like it's a little bit under duress or under challenge, I think, is a little bit of a function of just the cycle in which it's happened.

But nonetheless, the dynamic that you're seeing is this intersection between consumer dynamics and what I would call more normalization of the category after many years of different variables. So a little bit of this is when do those lines intersect? And one of the milestones for me that I think is going to be quite important when it comes to snacking is the summer. Because when you get into the summer, that is a very important snack category, and I really want to see and by then too, you will have cycled a lot of what I was talking about. So to me, I think, the summer is going to be a very interesting bellwether for where we are on the pivot for snacking.

I know there's a lot of concern about, are people going to become more aggressive or disfunctionally pricing? I do not expect that. Look, I always have said, even to a little bit of our own duress a couple years ago, snacking is a competitive category, especially salty. And so, you're going to see promotion. But I don't see anything that's out of the norm today. Right? We're not seeing – remember anything you do today, you're going to have to cycle tomorrow.

And so, if you get overly ambitious on price points, these are all things you're going to have to cycle. So I think, it's a pretty constructive landscape, but a competitive one. But as we get into the summer, I think that's going to give us our first indicator of, kind of seeing that normality return. That's what I expect. Now, I wish I could pinpoint for you is that April, May, June, July. I'm not sure I'm that precise, but I think, that'll be a good period for everybody to watch and look at it. And look, in the meantime, we're going to try to control our own destiny and win the fight there.

And, we're executing extremely well right now and have been for a while. Our supply chain is as strong and as solid as it's ever been. And so look, our innovation funnels are extremely deep. This is an absolute homerun if you haven't tried it yet, but a lot to love in the portfolio right now.

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**Carrie L. Anderson**

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

A

And, back on your comment on the disciplined promotion piece. The good news is in the second quarter, we saw gross margins expand. So, as we think about seeing the trending, the sequential improvements on volume trends that are really, really important, a barometer here is looking at that gross margin and saying, we have been able to balance that. And we do expect to see continued gross margin expansion in the second half of the year.

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**Mark A. Clouse**

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

A

And by the way, that's through the holiday season, right?

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**Carrie L. Anderson**

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

A

Yeah.

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**Mark A. Clouse**

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

A

So that's an aggressive, very competitive window both for us on snacks, primarily with cookies, but also, on our broth and our condensed soup businesses. And we grew dollar share and volume on all four of those categories during the holiday season. And we did it while still expanding margins. So that's a good indicator.

I mean, one of the things that I do think we did, a decision that we made that arguably I've made the wrong decision historically speaking is we protected the marketing and selling investment. So, where you're going to see some companies having to recover now in the back half of this year for us, I think, the good news for us is we've got that investment in our base. So you're not going to see a headwind on margins of us having to spend more because a lot of that's already in the baseline that we're driving. And that's – I think that will prove to have been the right call for a variety of reasons. But nice right now not to have to cycle having to spend back at the same time.

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**Peter T. Galbo**

*Analyst, BofA Securities, Inc.*

Q

And Mark, can you talk a little bit about maybe just some of the subcategories within salty? I mean, Goldfish has obviously been very strong.

**Mark A. Clouse**

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

Yeah. I mean, Goldfish is...

A

**Peter T. Galbo**

*Analyst, BofA Securities, Inc.*

Pretzels maybe had a little more pressure there.

Q

**Mark A. Clouse**

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

Yeah. I think, when I think about the – if you're trying to kind of gain the recovery in food in general, I do think there's kind of three big variables to look at. One is the consumer dynamic we just talked about. But the second area is what category are you in? Because I do think category by category, the story may be a little bit different. For example, as Peter said, I think, there's categories like Goldfish where, there's not a private label, there's not – you're kind of in this very unique and differentiated space and it's proven to be, momentum full speed ahead.

A

I think that there are categories like Pretzels where we've seen the biggest impact from private label, a bit more commoditized of the segment. And so, we've got to be mindful of that. That's going to put a little more pressure. It has put a little more pressure on the business. I feel good about our plans there, but I think category by category, you may see a little bit of a different pace, if you will, of recovery and important for us to make sure that we're mindful of that as well.

And that doesn't mean that we're chasing unprofitable volume, but it means that, we're going to ensure that we've maintained the right price value and that we're appropriately planned as we navigate those different categories.

And the third is what I just said before, which is our execution, right? Our innovation, our ability to perform in market, which again, I feel very good about how we've been doing on that front as it relates to, kind of controlling our own destiny or controlling the controllables.

**Peter T. Galbo**

*Analyst, BofA Securities, Inc.*

And Carrie, maybe you can talk a little bit about, the partner brands were a bit of a headwind in the quarter. Just kind of how you see that playing out over the rest of the year?

Q

**Carrie L. Anderson**

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

Yeah. Mark has talked about on that on the last couple of calls where, as we think about our Snacks growth, the underlying growth of our Power Brands is even stronger because there has been a headwind of lower Partner Brands. So Partner Brands are what we use to fill up our – fill up the...

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**Mark A. Clouse**

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

The truck.

A

**Carrie L. Anderson**

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

A

– trucks, right? So with our route-to-market is that, we're putting our core brands in, but we're also putting competitor partner brands in there to really scale that route. As we continue to grow our Power Brands and through and I'll have Mark talk a little bit about some of the combo strategies that we've – now rolling out here.

There's an opportunity for us to continue to grow, that Power Brands, continue to reduce the reliance on those Partner Brands, which creates a mix, a favorable mix on the margin story. So Power Brands obviously carry a nice margin to them. And so, that will help us on our margin journey for snacks as well, look, more self-help as we think about that.

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**Mark A. Clouse**

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

A

Yeah. And to put it in context, it's probably been about a point headwind on our growth line as well. The good news is our Power Brands are now about two-thirds of the portfolio. Our Partner Brands now are dipping below 10% for the first time. We were kind of mid-teens when we started the journey. And so, there's still – we'll always have some partner brands, right?

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**Carrie L. Anderson**

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

A

Yeah.

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**Mark A. Clouse**

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

A

There always be a role. You get parts of the country like the Pacific Northwest. There's some places where we'll always need a bit of that scale.

But our – and by the way, we have some good Partner Brands too. It's not like all partners are created equal, right? There's some differences. We've made a couple of tough decisions this year on a couple larger ones that just were not profitable enough to keep really as part of the portfolio. So a little bit more of that ahead. That's in our numbers. That's why it's important, I think, to keep pulling apart a bit, the Power Brands versus the partners. And so, we will keep helping you with the optics on that and helping you get a context for both.

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**Peter T. Galbo**

*Analyst, BofA Securities, Inc.*

Q

So maybe we can shift to talking about the combo strategy within DSD.

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**Mark A. Clouse**

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

A

Sure. Yeah.

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**Peter T. Galbo**

*Analyst, BofA Securities, Inc.*

Q

You've made some changes on your route-to-market. Just kind of kind of provide an update for folks here.

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**Mark A. Clouse**

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

A

Yeah. Look, I think it – I remember back in the beginning of the story when we were setting it, I think, it was a 12% pro forma combined EBIT margin and we were talking about 17% and everyone was like, wow, that's a huge lift. Are you sure? And I remember like, yeah, it does sound like a huge lift, but I'm reminded that 17% is the very bottom of peer snacking margins. And so, I always felt like 17%, as big as it seemed, was not some wild swing for the fences, but a pretty thoughtful and almost pragmatic view of the world. And I think the way this has played out, albeit a little bit more complex of an environment, right? If you go back to 2021, when we were at 13%, we gave you a roadmap for 400 basis points. It was a couple hundred of fundamentals, about 250 basis points of network and enablers, 50 basis points of DSD, and then, about 100 basis points of investment. I think, truth be told, fundamentals have been a little bit tougher to get to that 200 basis points. And we've spent a bit more in investment than we had originally laid out in that plan, which is a little bit of a function of the environment that we're in.

The good news is, we've delivered on everything and then some that we expected on the network and enablers. And although we're maybe a year later than we expected because of that investment and fundamentals, we're still getting there on the back of all of – all the productivity and the structural changes. The good news is, we've now added much better clarity on DSD. And so, we will get that 50 basis points. But we also see runway ahead for even more beyond 2026 that could add either opportunity for further margin expansion or further investment, if we saw an opportunity for that as well.

And the big unlock for the DSD component was this fifth of the country where you've got two under-scaled trucks going to customers. And the question of whether those two could be combined. And why is that a challenge? Like, why didn't you just rush out and go do that?

Well, the fact is there's no DSD that actually goes to two aisles in the store today, right? DSD is a pretty targeted tool. You tend to go in the one aisle, you work the aisle, you get out, you go to the next one. And so, we needed to really validate the amount of time that a driver, an independent, one of our partners would need to spend to make sure that the economics were sustainable, to attract really good partners in buying these routes.

And so, we really needed to go through a pretty thoughtful process of validating whether that was possible, whether we can do it. So we were very slow, kind of methodical in going through it. But we've now concluded that not only can we do it, but the uplift that we're getting in effectiveness along with efficiency is really encouraging.

And so, that time spent, the investment that potentially a partner can make is all a really positive indicator for us as we think about making these very attractive economically for potential partners and our customers. And so, there are parts, although, as I said, we've got roughly 80% of the landscape that's pretty scaled already. And you would never combine them because both trucks are already scaled on their own.

So having a dedicated Pepperidge Farm and a dedicated Snyder's-Lance truck actually is what you would likely want to do. And in many of these markets, we're at scale. So in essence, what this will do is create one DSD snack network. We'll still have bakery on some very different animal, but this will create one network from plant to warehouse, now all the way to DSD route. And that is a big unlock for us and one that to me simplifies one of the biggest barriers that people I think had in believing that we can improve the margin on these businesses.

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**Peter T. Galbo**

*Analyst, BofA Securities, Inc.*



So we have a few minutes, maybe there's some questions in the room. Oh, [ph] Brian (00:34:26) has got his hand up, so he's going to ask.

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**Mark A. Clouse**

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

Now [ph] Brian, (00:34:28) you're no longer allowed to ask a question.

A

**Peter T. Galbo**

*Analyst, BofA Securities, Inc.*

[ph] Brian (00:34:29) is going to ask how he can buy a DSD route and start running it himself, I think, is the...

Q

Q

They asked Pete and I about splitting up, we always just say, better together.

**Mark A. Clouse**

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

Good.

A

Q

So your last point, right, in terms of putting biscuits and salty snacks, on the same route, I think you remember wall to wall, right?

**Mark A. Clouse**

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

Yeah.

A

Q

And what that...

**Mark A. Clouse**

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

Oh, I remember wall to wall.

A

Q

How that gummed up Nabisco.

**Mark A. Clouse**

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

Yeah.

A

Q

So I guess, is the technology different?

**Mark A. Clouse**

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

Yeah.

A

Q

Is the setup here different because you're not having to merchandise as much of the store. So I guess, the first question there, just in terms of the time spent in the store and not causing a distraction, just what's different about this than the [indiscernible] (00:35:11)?

**Mark A. Clouse**

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

Yeah. So for those who don't know, what [ph] Brian's (00:35:15) talking about is that Kraft Foods. When Kraft Foods had purchased Nabisco, there was a decision to consolidate sales into what was called wall to wall. And the big difference in what I'm talking about versus wall to wall is that, that was a combo of DSD and warehouse under one sales organization. It was almost 60 categories. And it was very efficient from a dollar standpoint, but from an effective standpoint, especially for snacking, it was not the right thing to do.

A

So we are not intermingling, if you will, like a Meals and Beverage and Snacking. So you really, are still pure play DSD here, but nonetheless, getting the two aisles in the store, it's not 60, but getting the two aisles in the store was still something that, perhaps the scars of that rang deep. I wanted to really make sure that we were certain. But I think, what we're finding is, by creating a bit more time, but with a much larger drop size, the economics, it's very important for a partner, as you can imagine, if you were starting one of these businesses on your own, it's really a dollar to minutes, right? So how much time can I allocate for what I'm making, the math on that is very compelling and I can promise you we're not cheating. The time that someone needs to spend in both aisles. It's not like, all right, we'll just run and dump and get to the next one. We're really going through it in a very methodical way.

And to your second point, we're also at the same time, upgrading technology. And so, the technology that folks will have. So if you were to go into one of our depots in the past, you would have had a clipboard, you would have been given a clipboard, and you would have had to walk around, find the products, put it on a cart, take it out to your truck and go.

Now, what we're doing is creating the ability to digitize that. So when you arrive, your pallet is already ready. It's mixed. We have shoppers that are essentially doing the pick, if you will. You can order ahead and then connect it directly to the technology that our customers have. So the seamlessness of this is improving dramatically. And so, part of it is we're giving more time back on, let's call it, the administrative component of the route that I think is going to help create a little bit of extra time in store.

So it's really a combination of both, [ph] Brian. (00:37:52) But thanks for bringing back the demons of wall to wall. Now, we learned a lot. We learned a lot on that.

**Peter T. Galbo**

*Analyst, BofA Securities, Inc.*

Q

So maybe the last 2 minutes, Mark, one, when are we going to get the Rao's Salad Dressing? Because I know [ph] Brian (00:38:05) actually really wants that. That's what he's craving. And two, like, I'll let you respond GLP-1 maybe for 90 seconds.

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**Mark A. Clouse**

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

Sure.

A

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**Peter T. Galbo**

*Analyst, BofA Securities, Inc.*

And just the impact you've seen so far on the business.

Q

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**Mark A. Clouse**

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

Yeah, great. So well Salad Dressing, how about this? Why don't you go try our Rao's ketchup first? That's out now. Now, look, I'm going to be the first to say that when I – look in fairness, I always try to be self-reflective and self-aware. I was not a big fan of the concept of Rao's and ketchup, until I tried it. And like everything else that, that brand touches, it is really, really good. I'm not trying to convince you, but there's a lot of Italian households that have ketchup in Italy. But I got to tell you, it's a great product. It's just an upgrade of the experience because it's using, you know, Rao's tomatoes, which are magical. So Salad Dressing, I'm not – that's another, that's not a bad -- that one's probably a little closer to the Italian home. But like I said, we're going to be very focused on driving the categories we're in, while bringing thoughtful innovation in the categories where we think we have a right to win. And like I said, I think, the team has been incredibly disciplined on that front as we've gone.

A

And look, the short answer on weight management is the first thing, I just would say. I hate the fact that this conversation puts food companies in this feeling of needing to defend, because the fact is, this is a great thing.

If there's a tool for consumers to be able to help them fight obesity, I am all in on that. And that's a great thing. I think the facts are though, that as we look at the impact of the business today, it's really a very small one, if any, that you can find. What we have been able to do though, in the spirit of staying vigilant is we've been able to – there's now more consumer data on groups where we've isolated people that are utilizing it to see what their behavior is. And what we're learning in that is that, the reality is these are not people that are abandoning categories. Like a lot of times, I think people thought, well, they'll just never snack again.

The fact is that the portions may be a little smaller, but there's almost this permission to trade up to something really good. Like, if I'm going to – we're going to have that moment, man, I'm grabbing a Milano versus, and the reality is, is that, that's not entirely surprising, if you think about the psychology of it.

And so, the good news is a lot of our indulgent products kind of live in that more premium, more differentiated space. And so, I think that's a good thing. The other big learning is that one of the things that is toughest about managing use of the drugs is digestion and kind of how you deal with that. And so, nutritional density is becoming – will become a little bit more important among these consumers and easy to digest nutritionally dense. I mean, it's almost verbatim description of soup. And honestly, I feel like our categories fit very well in that dynamic with consumers.

And so although, I think the storyline may have been a little bit overblown, we're going to stay vigilant and we're going to stay on top of it. But the good news is, from what we're learning, I think, there's a great role for our

products and our categories to play, even in a world where, let's hope that more people are able to utilize the drug and are able to help more people fight obesity, where it's not just concentrated in high income households, but more broadly, across the population. But we'll be ready or that.

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**Peter T. Galbo**

*Analyst, BofA Securities, Inc.*

Awesome. Well, we're at time. Mark, Carrie, thanks very much as always.

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**Carrie L. Anderson**

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

Thank you.

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**Peter T. Galbo**

*Analyst, BofA Securities, Inc.*

Mark is going to do new media, so we're going to get him prepped for that and, yeah.

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