

05-Mar-2025

The Campbell's Co. (CPB)

Q2 2025 Earnings Call

CORPORATE PARTICIPANTS

Rebecca Gardy

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

Carrie L. Anderson

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

Mick J. Beekhuizen

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

OTHER PARTICIPANTS

Andrew Lazar

Analyst, Barclays Capital, Inc.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Jim Salera

Analyst, Stephens, Inc.

Robert Moskow

Analyst, TD Cowen

Kenneth Goldman

Analyst, JPMorgan Securities LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Campbell's Second Quarter Fiscal 2025 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 Campbell's second quarter fiscal 2025 earnings conference call. I'm Rebecca Gardy, Campbell's Chief Investor Relations Officer. Joining me today are Mick Beekhuizen, Chief Executive Officer; and Carrie Anderson, Chief Financial Officer.

Today's remarks have been prerecorded. Once we conclude the prepared remarks, we will transition to a live webcast Q&A session. The slide deck and today's earnings press release have been posted to the Investor Relations section on our website, thecampbellscompany.com. Following the conclusion of the Q&A session, a replay of the webcast will be available at the same location, followed by a transcript of the call within 24 hours.

Slide 2 outlines today's agenda. Mick will provide insights into our second quarter performance as well as our in-market performance by division. Please recall that effective first quarter fiscal 2025, we are using Circana MULO+ for in-market data. Carrie will then discuss the financial results of the quarter in more detail and review our guidance for the full fiscal year 2025.

As we noted in this morning's press release, the company's guidance does not reflect any impact from the imposition of import tariffs by the US and potential retaliatory actions taken by other countries, as the tariff and trade environments are rapidly evolving at this time.

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 Mick Beekhuizen, our new Chief Executive Officer. Mick?

Mick J. Beekhuizen

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

Thanks, Rebecca. Good morning, everyone. Before I review our Q2 results, I want to start by expressing how honored and energized I am to lead the Campbell's team as CEO and accelerate the strategy that has been fueling our performance. Having helped shape Campbell's strategy since joining the company in 2019, most recently as President in our Meals & Beverages division, I'm committed to building upon the strong foundation we have in place. That starts with our talented people who are engaged, accountable and committed to winning. We have the best portfolio in the industry with category-leading brands in both divisions. These brands are important to our customers and highly relevant to our consumers. I am confident that we are well prepared to deliver top-tier performance.

Similar to the first quarter, our Q2 earnings performance was in line with our expectations despite the dynamic operating environment. Unfortunately, the anticipated recovery of some of our snacks categories did not materialize during the quarter and as a result, our top line was slightly below expectations.

We continued to invest behind our brands resulting in good overall in-market results with an aggregate stable market share. Ten out of our 16 leadership brands grew or held share in the quarter, a testament of the overall strength of our leadership of brand portfolio. Going into the second half of the year, we're focused on maintaining the momentum within our Meals & Beverages division, while in our Snacks division we are focused on successful innovation, select brand support and price-pack architecture to meet consumer needs.

From an operational perspective, we continued to make substantial progress on the Sovos integration and advanced various cost savings initiatives throughout the organization. On the flip side, our Snacks margin fell short of our expectations, driven by unfavorable mix and some operational headwinds in our fresh bakery business during the important holiday period. We are actively addressing both areas and, combined with a normalization of our commercial support, we expect our Snacks margin to improve sequentially throughout the second half of the fiscal year.

As reported in our press release this morning, we updated our full-year guidance to reflect the slower than anticipated recovery of our snacking categories impacting the outlook for our second half. We are committed to investing in our brand portfolio while accelerating certain cost savings initiatives to manage through the current consumer environment.

We expect organic net sales to be in the range of down 2% to flat, adjusted EBIT of +3% to +5%, and an adjusted EPS range of \$2.95 to \$3.05. Carrie will provide more details in a moment. This updated guidance does not reflect any impact on our business from tariffs or other regulatory changes. This is a fluid situation, and we are working through mitigation plans for a variety of scenarios.

Overall, we have work to do, but I feel confident in our plans for the second half. We have a strong brand portfolio supported by great talent that's focused on delivering results by partnering with our customers and meeting consumer needs.

Now, let's turn to key highlights from our second quarter results. Turning to slide 6, we delivered 9% growth in net sales reflecting the contribution from Sovos. Organic net sales were down 2% driven by relatively consistent performance within Meals & Beverages and weaker than anticipated snacking categories amid a competitive environment.

Importantly, volumes in the second quarter remained flat, marking the fourth consecutive quarter of flat or increasing volume for the total enterprise. Adjusted EBIT increased 2% versus prior year and adjusted EPS was \$0.74. The Sovos acquisition was slightly accretive to adjusted EPS in the quarter.

Turning to slide 7, in Q2, we saw stable performance with total company leadership brands flat on consumption while the majority grew or held share. As a reminder, our leadership brands represent approximately 90% of our enterprise net sales. Our Meals & Beverages leadership brands continued to demonstrate their strength with dollar consumption up 1%. Seven of 8 leadership brands grew or held share in the second quarter, and although Swanson broth consumption continued to grow during the quarter, the modest share decline was driven by the anticipated private-label recovery.

In Snacks, we made progress versus Q1 from a share perspective in a couple of key areas such as Pepperidge Farm cookies and, although still down year-over-year, Snyder's of Hanover pretzels. Similar to the first quarter, total Snacks consumption for our leadership brands was down about 1%. We have a strong differentiated portfolio of brands within our Snacks division and while we need to continue to evolve with the consumer, they provide a strong foundation for long-term growth.

As shown on the next page, consumers continued to turn to some of our key brands during the holidays, driven by strong in-market support, including our successful sides season cooking and holiday cookie campaigns. Although dollar consumption for our holiday-focused brands was flat during the period, dollar share increased by 30 basis points.

Specifically, our Campbell's condensed cooking products had a successful holiday season, growing both dollar and volume share as well as volume consumption. The broth category was a top 3 driver of food growth during the holiday period, and Swanson and Pacific broth grew consumption with share declines driven by the anticipated private label recovery.

As planned, we made significant investments in our Snacks brands to drive loyalty and win this important period. While both the bakery and cookie categories were soft, Pepperidge Farm, one of our three billion-dollar brands, delivered strong holiday performance outperforming categories via innovation and best-in-class execution across both cookies and stuffing.

Turning to our Meals & Beverages division on slide 9, organic net sales declined 1% for the quarter, with continued volume and mix growth of 1%, which was consistent with the first quarter. On a pro-forma basis, with

the addition of Sovos Brands, Meals & Beverages organic net sales were flat, with in-market dollar consumption increasing 1%. During the second quarter, we experienced a supplier disruption related to SpaghettiOs which contributed a 1-point decline to organic net sales.

Turning to slide 10, our soup portfolio continued to benefit from increased at-home cooking activity, leading to growth in both condensed cooking and broth. However, eating soup categories, both within condensed eating and ready-to-serve, were slightly weaker. That being said, we marked our fifth consecutive quarter of volume share growth in Campbell's total wet soup, including Rao's.

Campbell's condensed segment maintained its positive trajectory, continuing to gain share driven by strong performance of our cooking portfolio used in meal prep, especially during the holiday season, and strong household penetration growth. We have a broad and strong RTS portfolio with Chunky, Pacific and Rao's, all of which performed well in the quarter, gaining or holding share. This was offset by pressure in our RTS convenience portfolio and about a point of share headwind related to the de-listing of our Well Yes! brand.

In broth, we benefited from continued category growth, particularly as private label has not yet fully recovered. We expect private label to continue to recover throughout the remainder of the year resulting in slight share pressure in the second half. However, if category growth continues, and private label recovery remains slow, we are well-positioned to meet increasing consumer demand with the strength of our supply chain network.

With the number 1 and number 2 category leaders, Campbell's total Italian sauce portfolio, shown on slide 11, outpaced the category in Q2 with dollar consumption of plus-5% and a share gain of 1.4 points. With Prego and Rao's, we have two of the best-positioned brands in Italian sauce, both of which are performing well against their roles in our portfolio.

Starting with Prego, we saw steady growth both in dollars and volume consumption, and we grew dollar share by 20 basis points in the second quarter. Prego grew household penetration in the second quarter year-over-year with growth across all generational cohorts. Our ultra-distinctive Rao's sauce continued to outpace the Italian sauce category, resulting in 1.3 points of share gain in the quarter.

The first quarter of fiscal 2025 benefited from a shift in promotional timing, specifically in the club channel. On a first half basis, consumption increased by 11% and share was up 1.5 share points. This strong performance reinforces the strategic rationale for the acquisition and is a proof point of the successful integration of Sovos.

Turning to slide 12, Rao's sauce delivered high-single-digit net sales growth in the second quarter and low-teens growth for the first half. We continue to expect pro-forma year-over-year growth in fiscal 2025 to be slightly above 10%. Over the long term, consistent with what we shared at Investor Day, we expect Rao's to grow in the mid-single to high-single-digit range. Rao's brand equity remains exceptionally strong in terms of key metrics: awareness, household penetration, repeat, and loyalty. What's particularly exciting is the substantial runway for expansion.

Despite leading the ultra-distinctive Italian sauce category in dollar share, Rao's currently reaches only half as many households as our Prego brand and maintains just 60% of Prego's product assortment. We're accelerating Rao's brand awareness initiatives and expanding our innovation pipeline, having launched 10 new sauce products in the last year. You may have seen the latest activation which brings consumers along the Rao's Homemade journey to experience what makes each jar of Rao's so special and is a major point of difference from our competitors in the ultra-distinctive space.

Millennial household adoption continued to surge at more than twice the category pace, reinforcing our conviction in Rao's long-term growth. The compelling value proposition of Rao's compared to mainstream Italian takeout continues to fuel incremental growth, allowing the brand to source volume from a significantly larger addressable market across a broad range of consumer income levels. With our strategic growth initiatives firmly in place, we remain confident in Rao's becoming our next \$1 billion brand.

Now let's turn to our Snacks portfolio. As previously mentioned, we delivered some encouraging in-market progress in key brands particularly during the holidays. However, the anticipated category recovery did not materialize, resulting in organic net sales decline of 3%. About half of that came from our planned reduction in partner and contract brands. A key driver for overall performance was the 1% decline in consumption of our leadership brands which was consistent with our performance in Q1.

Although Carrie will go through the details in a moment, I would like to talk about our Snacks margin for a minute. The margin for our Snacks business was down 370 basis points year-over-year. About half was driven by a planned increase in commercial investment to support incremental promotional activity and marketing during the holiday season. The remainder was from short-term operational supply chain headwinds particularly in our fresh bakery network that resulted in increased manufacturing and logistics costs to maintain service levels during the holidays and unfavorable mix.

We are proactively addressing our Snacks margin and anticipate a recovery in Q3 with a gradual improvement throughout the second half of the fiscal year. In fact, we are starting to lap more normalized promotional and marketing activity, and we are already seeing improvements from a supply chain perspective.

Our Pepperidge Farm bakery business continued its in-market momentum from previous quarters as we maintained our overall share position. Additionally, we made sequential share progress on our Pepperidge Farm cookies business, driven by the holiday activation. Within the deli aisle, Snack Factory held share despite category headwinds. We continue to be excited about Snack Factory expanding into the snack aisle with Pop'ums and bites, our unique munchable and big flavor innovations that will now sit alongside Snyder's of Hanover distinct platforms.

In salty snacks, our brands hold leading positions in attractive segments that are growing much faster than the total chips categories. Although new entrants and stepped-up promotions are putting pressure on shares, we have plans in place to continue to strengthen our position. In crackers, Lance continued to expand share and grow consumption.

Within Goldfish, we experienced weaker category performance and increased competitive promotional activity. Going into the second half of this fiscal year, we have integrated plans in place to support our Goldfish brand, with a focus on innovation, marketing support and price-pack architecture initiatives.

Our snacking categories are attractive and resilient, and we are well positioned with an advantaged portfolio of relevant leadership brands. We have confidence in the action plans we have in place to improve our in-market performance and build momentum in the second half of the year starting with a robust innovation pipeline to deliver against consumer macro trends, including Better-For-You choices with products like Kettle Brand chips made with avocado oil. We are also driving innovation and differentiation with new Goldfish LTOs such as Harry Potter Butterbeer Grahams and other differentiated flavors.

We are also strategically expanding accessibility and enhanced value across our Snacks portfolio by introducing new pack sizes and price points that provide consumers more choices for their favorite snacks, from Pepperidge

Farm Chessmen and Mini-Nantucket cookies in single-serve multi-packs to Goldfish in small size packs offering an attractive opening price point. Overall, I am excited about the opportunities within our Snacks portfolio.

Before I turn it over to Carrie, I want to highlight our core focus areas as we move into the second half of fiscal 2025. We plan to continue to invest to support the long-term growth of our 16 leadership brands through highly relevant, compelling innovation and marketing to drive excitement, awareness and volume. In our Snacks division, we continue to stay focused on navigating consumer and competitive category dynamics. Specifically, in the second half, we are focused on select brand support, successful innovation launches and some price-pack architecture to stabilize our top line by the fourth quarter while we sequentially improve our Snacks margin.

In Meals & Beverages, we're focused on maintaining the at-home cooking momentum throughout our portfolio, which includes managing our broth business as we expect private label supply to continue to recover. Additionally, we are focused on sustaining Rao's growth by driving brand awareness and innovation while we complete the integration. Across the company, we are intensifying our efforts to improve efficiency and effectiveness to support top line growth and maintain a healthy margin profile. As mentioned, addressing margin performance in our Snacks division is a top priority.

Finally, we remain steadfast in our disciplined capital allocation strategy, ensuring we balance growth investments with shareholder returns as we navigate the dynamic consumer environment.

With that, let me turn it over to Carrie to go over the Q2 results and our updated guidance in more detail.

Carrie L. Anderson

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

Thanks, Mick, and good morning, everyone. Our second quarter adjusted EPS was in line with our expectations, despite the dynamic operating environment Mick discussed earlier. And while the anticipated recovery of Snacks categories did not materialize to the extent we expected, and this translated into a softer top line with some added pressure on adjusted gross margin, our adjusted EBIT was in line with our expectations as well.

Reported net sales increased 9% driven by the strong sales contribution from Sovos. Organic net sales, excluding the impact of the Sovos acquisition, the Pop Secret divestiture, and currency, decreased 2%. Adjusted EBIT increased 2% due to the contribution from the acquisition, while adjusted EPS declined 8% to \$0.74 due to higher interest expense from higher debt levels. The impact of the acquisition was slightly accretive to adjusted EPS in the quarter, which continued to exceed our expectations.

Turning to slide 19, as mentioned earlier, organic net sales for the second quarter were down 2% due to planned net price investment of 2% in support of the holiday season, with flat volume and mix. Sovos contributed 13 percentage points to reported net sales growth.

On slide 20, second quarter adjusted gross profit margin declined 100 basis points, with margin in the base business down 60 basis points and a 40-basis-point impact related to the acquisition. Base business margins were impacted by cost inflation and other supply chain costs and unfavorable net prize realization, partially mitigated by productivity improvements and cost savings initiatives. Through the second quarter, we have delivered approximately \$65 million of total savings under the \$250 million cost savings program announced at our Investor Day in September 2024.

Turning to slide 21, the total combined dollar spend on adjusted marketing and selling expenses and admin expenses increased compared to the prior year, primarily reflecting the integration of Sovos. However, these

combined expenses remained flat as a percentage of net sales to the prior year. Within adjusted marketing and selling expenses, advertising and consumer promotion expense increased 25%. Adjusted administrative expenses decreased 2%, driven by the benefits from cost savings initiatives, partially offset by the impact of the acquisition.

As shown on slide 22, second quarter adjusted EBIT increased 2%, primarily due to higher adjusted gross profit, partially offset by an increase in adjusted marketing and selling expenses. On slide 23, adjusted EPS decreased 8% to \$0.74, as adjusted EBIT growth was more than offset by higher interest expense, primarily related to the acquisition.

Turning to slide 24, Meals & Beverages reported a 21% increase in net sales growth, due to the contribution of the acquisition. Organic net sales declined 1% compared to prior year, with a planned 2% investment in net realized price to support incremental promotional activity during the important holiday period, soup season and innovation launches, and favorable volume and mix of 1%. Second quarter operating earnings in the division increased 18% primarily due to the benefits of the acquisition, partially offset by higher marketing and selling expenses in the base business.

Q2 operating margin for Meals & Beverages decreased 60 basis points to 17.3% driven primarily by the impact of the acquisition. Excluding the acquisition, operating margin in the base business was essentially flat year-over-year as increased marketing investment was largely offset by higher adjusted gross profit margin and lower adjusted administrative and R&D expenses.

Second quarter organic net sales in Snacks decreased 3%, driven primarily by declines in third-party partner and contract brands, Goldfish crackers, and Snyder's of Hanover pretzels. Sales were impacted by lower net price realization of 1% and volume and mix declines of 2%. About half of the sales declines were the result of lower third-party partner and contract brands sales.

Snacks operating earnings in the quarter declined 29% due to higher marketing and selling investments and lower gross profit as the impact of inflation and other supply chain costs, unfavorable volume and mix, and lower net price realization were only partially offset by supply chain productivity and benefits from cost savings initiatives.

Q2 operating margin for Snacks decreased 370 basis points to 11.3%. Roughly half of the margin decline compared to the prior year was driven by planned increased promotional and marketing investments to support our brands during the critical holiday season. The other half resulted from increased supply chain costs, which Mick mentioned earlier, primarily in our fresh bakery network, as well as unfavorable mix. Although we continued to advance our cost savings and productivity initiatives, these were not sufficient to offset these headwinds.

We do anticipate Snacks margins to improve sequentially throughout Q3 and Q4 as compared to Q2. Supply chain costs have already shown improvement since the beginning of the calendar year, marketing spend as a percentage of sales is expected to decrease post the holiday period, and we will have easier net price comparisons and expect a more favorable mix, particularly in Q4. Additionally, we are focused on driving SG&A efficiencies to further support margin enhancement going forward.

Turning to slide 26, we generated \$737 million in operating cash flow in the second quarter year-to-date, an 8% increase from the prior year period. Capital expenditures were \$211 million year-to-date and reflect investments to support growth, asset sustainability, and initiatives to drive productivity, cost savings and enhanced business capabilities. We also remain committed to returning cash to our shareholders, with \$227 million of dividends paid and \$56 million in anti-dilutive share repurchases year-to-date.

Our net debt to adjusted EBITDA leverage ratio at the end of the second quarter was 3.7 times, reflecting the financing of the Sovos acquisition, which is similar to our ratio at the end of the first quarter. We remain committed to investment grade ratings and our goal is to return to our 3 times net leverage target in fiscal 2027. At the end of the second quarter, the company had approximately \$829 million in cash and cash equivalents and approximately \$1.85 billion available under our revolving credit facility.

Based on year-to-date performance and the slower than anticipated recovery in some snacking categories, we are updating our full-year fiscal 2025 guidance. Our updated guidance also reflects the divestiture of noosa, which was completed on February 24.

As Mick mentioned earlier, our guidance does not incorporate any impact that may result from tariffs or other regulatory matters. We are now expecting full-year reported net sales to increase approximately 6% to 8%, which includes a 1-point impact from the noosa divestiture. Full-year organic net sales is expected in a range of down 2% to flat, excluding the 53rd week. The lower organic net sales expectation is a result of a more muted volume/mix contribution in the second half following the weaker than anticipated recovery in snacking categories in the second quarter.

As a reminder, Sovos moves into organic growth in mid-Q3, and our base Meals & Beverages business will be cycling the broth net sales benefit in fiscal 2024 resulting from private label supply constraints. We expect adjusted EBIT growth of 3% to 5%, inclusive of the impact of the divestiture of noosa. While the slower recovery in snacking categories has translated into lower top line for the full year, we are driving additional momentum in our enterprise cost savings initiatives to help mitigate some of this pressure on earnings and margin.

As a result of our strong year-to-date performance, we are increasing our cost savings expectations for the full year from \$90 million to \$120 million. This includes savings from the integration of Sovos and several previously discussed network optimization projects across both divisions. Combined, our cost savings program and our planned 3% productivity initiatives are expected to more than offset inflation, which we anticipate to remain in the low-single-digit range.

Additionally, we expect adjusted marketing and selling expense for the full year and the second half to be at the lower end of our targeted range of 9% to 10% of net sales. Adjusted earnings per share is now expected to be in a range of \$2.95 to \$3.05, inclusive of the \$0.01 dilutive impact of the divestiture of noosa. Full year net interest expense is expected to be between \$325 million to \$330 million, reflecting the benefit of the after-tax proceeds from the noosa divestiture, which will be used to reduce debt.

At the midpoint of our guidance range, we expect second half organic net sales growth to sequentially improve from Q2, turning positive in the fourth quarter, and we would expect second half adjusted EPS to be more equally distributed, excluding the 53rd week. Finally, capital expenditures are expected to be approximately 4.7% of net sales, a slight change to reflect cash timing.

To wrap up, we believe in the strength of our portfolio and our ability to continue to execute our strategic priorities. Looking ahead, we are focused on the elements within our control. We are committed to a balanced, disciplined approach to protect and expand our market-leading positions across both divisions while maintaining operational excellence and delivering continued cost savings. We have a flexible balance sheet, strong cash flow generation and financial discipline. We have proven our resiliency to navigate challenging environments, and I am confident in our team's ability to deliver our second half plans, while executing our roadmap for long-term sustainable value creation.

Before turning it over to the operator, I'll close by thanking the entire Campbell's team for their hard work and contributions, particularly as we maneuver through this dynamic environment.

That concludes our prepared remarks. And with that, operator, let's begin the Q&A.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first 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. Appreciate it. Mick, as we think about the fiscal second half, I guess I'm trying to get a better sense of sort of what actions are specifically driving the lower profit outlook, really with an eye towards understanding if the revised guidance is sort of giving the company enough room to get Snacks back on track in the context of a slower sort of category rebound and more competitive environment. And maybe as a second piece to this, last quarter, Campbell expected net price to be less than 100-basis-point headwind to organic sales. I'm just wondering if that's changed with the new guidance. Thanks so much.

Mick J. Beekhuizen

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

A

Great. Morning, Andrew. So let me take the first part and then, Carrie, if you can follow up on the second piece. And maybe what I'll do, Andrew, is let me step back for a minute and give you a little bit of context about the revised guidance and the different piece, which I think addresses what you're getting at.

If you look at the Q1 call, we said that it's going to be important to see how the second quarter and the holiday season come together, and that's going to be a good indicator for us for the outlook for the second half of the year. Of course, first of all, when I look at Meals & Beverages across the board, the business is performing in line with our original expectations. And if anything, I'm actually encouraged by some of the momentum that we have there in the business.

Now with regard to our Snacks business, obviously a believer in our business; however, unfortunately, the broader snacking categories didn't improve as we had originally anticipated. And particularly, that pertains to key categories such as cookies and crackers. They were softer. So as a result, we revised our outlook for the full year to reflect that broader operating environment.

Now that being said, at the same time, while we're making progress on cost savings productivity initiatives, you did see that our Snacks margin for the quarter was lower than what we had anticipated. And although I believe we're going to continue to make sequential progress on the Snacks margin, I don't think we'll achieve the margin level that we previously communicated for the year, which gets a little bit back to your question.

So if you then look at our midpoint of our EPS guidance range, excluding noosa, we're down about \$0.16, which, with the reduction in interest expense, results in an EBIT reduction of about \$80 million. I'll call \$60 million of that is driven by the Snacks top line reduction of, give or take, \$200 million, and that translates in – if you take a 30%

gross margin, in about \$60 million of EBIT. At the midpoint, we are assuming that the top line growth within our overall business is going to sequentially improve from Q2 and then turn positive in the fourth quarter.

Now the other \$20 million of the \$80 million of EBIT reduction is the net effect of a reduction in our Snacks margin outlook for the full year and incremental cost savings initiatives. And regarding our Snacks margin, although we're still expecting to make sequential progress, I now expect that margins will be more in that 13.5% range for the full year.

So stepping back and you look at the range of our EPS at the mid-level, I describe that we would have the sequential recovery on the organic sales. And if you look at the high end of the range, I basically expect that Snacks would more quickly recover on the lower end of the range, expecting basically that we have no top line recovery on our Snacks business throughout the remainder of the year, while we continue to focus on cost saving initiatives to support our brands.

So in that mid range, if you look at particularly our Snacks business, we expect that stabilization on top line by the fourth quarter.

Carrie L. Anderson

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

A

And then regarding your question on price, I'd say certainly in Q1, we had about 100 basis points of net price investment. In Q2, we talked about stepping that up to about 200 basis points. And so as I think about the second half, we're going to start to lap some of that increased promotion investment from the prior year, so we would expect promotions to be less of a headwind in the second half, but still a headwind.

And I think our guidance that Mick just walked through sufficiently provides a room for the right amount of promotion investments to support the second half and our recovery. And look, we'll be – when and where, we'll always be – we'll maintain competitive pricing gaps and support our innovation launches and our guidance certainly would support that.

Andrew Lazar

Analyst, Barclays Capital, Inc.

Q

Great. Thanks so much.

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

Jim Salera

Analyst, Stephens, Inc.

Q

Guys, good morning. Thanks for taking our questions. Mick, I actually wanted to follow up on some of your commentary there. So could you maybe walk us through what you're assuming for the consumer recovery in the back half of the year? And if I think about the mix of where potential outperformance or underperformance could come from in Snacks, would it be that the category improves and you guys kind of improve alongside the category or there's opportunity with some of the innovation that you have and maybe some of the promotional activity you have to gain share even if the category remains softer?

And maybe as like a second piece to that, on slide 7, Goldfish was one of the brands that, I believe, did not grow or hold share, and you spoke to some of that in the prepared remarks. But just thinking about some of the innovation there, and I know you guys had some flavor extensions on Crisps and you mentioned Harry Potter

LTOs, just how should we think about that particularly contributing to either share gains or holding or losing share in the context of the broader category recovery?

Mick J. Beekhuizen

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

A

Yeah, yeah. Okay. Great. Thank you. Thanks for the question. I think it's a good question. And let me try to take it in different pieces. So, first of all, with regard to our Snacks business, as I mentioned, we are expecting, from a top line perspective, that Q3 will continue to be an environment which I expect to look relatively similar to what we are seeing in Q2. Then if you go into Q4, we're assuming the stabilization from a top line perspective.

Now if I take the overall second half and with what we are, on the one hand, we're obviously focused on what the categories are doing. But on the other hand, we're obviously also very focused on what we are doing, which comes back a little bit to what you're describing with a brand or a core brand for us like Goldfish. And this does go across a broader portfolio, right? We have eight amazing leadership brands within our Snacks portfolio, and we need to make sure that we work on every single one of them within these different categories.

That being said, there are certain ones like, as you pointed out, like Goldfish, where we are particularly focused in making sure that we're making progress. Goldfish, and you see it in some of the Circana data and you also heard me talk about it in the context here, is not where we currently want it to be. We're focused on bringing growth back to Goldfish. Goldfish is highly relevant. And I think the team has great plans in place for the broader portfolio of snacking brands, but then also Goldfish specifically.

And when I look at Goldfish, it's really coming back to, on the one hand, making sure that we have that proper support in place that the team is currently working through, whether it's, on the one hand, in and around the promotional support in the marketplace. Carrie talked a little bit about that, the team is working through that, and then on the flip side, of course, making sure that we get the Goldfish message out there, which really resonates with the consumer. And as a result, that support is going to be very important. Now at the same time, the team has, as you described, some great innovation that is currently coming into the marketplace, and we're putting a lot of time and energy behind it to make sure that we are executing it to its fullest extent.

Now then finally, when I think about value, which is a important component in the current consumer environment, and we obviously see it across our broader Campbell's portfolio. But right now, maybe even a little bit more pronounced on the snacking side because of its discretionary nature, we need to make sure that we have the right price points in the marketplace for the right occasion – for the right purchase occasion. That then also comes back to price-pack architecture. And that's one of the other areas that you see within our broader snacking portfolio, but it also then comes to fruition within Goldfish, and making sure that we have this proper entry point into Goldfish as a brand or the cracker category.

Jim Salera

Analyst, Stephens, Inc.

Q

Okay. I appreciate the detail. I will hop back in the queue.

Operator: Our next question comes from Ken Goldman of JPMorgan. Please go ahead. Your line is open.

Kenneth Goldman

Analyst, JPMorgan Securities LLC

Q

Hi. Thank you. On snacking, just in light of some of the top line challenges as well as your comment that the margin will be down this year, how confident are you that you can still achieve your target of 17% in fiscal 2027? And maybe more importantly, how confident are you that 17%, regardless of the timeline, is still a reasonable goal as we look ahead into future years? Thank you.

Mick J. Beekhuizen

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

A

Yeah. Yeah. Thank you, Ken. When I look at the Snacks margin and particularly where we're currently at, of course – so maybe just, first of all, stating what might seem obvious is the Q2 level is not where we should be, will be and now going to be going forward. And I think we laid that out pretty in a lot of detail in the prepared remarks. But when I look forward and with where we're at, focus on that sequential improvement going into the second half, various reasons to believe, I know the team is all over that. Of course, we're working through some of these operational challenges, but at the same time, the team is also identifying continued savings.

Obviously, ending the year at a lower level than we had originally where we wanted to be. That being said, as I step back and I look at the different building blocks that we had identified in the past and we stay focused on, whether it is our broader network that we've been working on including the DSD as well as some of the mix improvements, I still believe that these different building blocks are there in order to improve our overall Snacks margin, while we also continue to support our brands. So that's not a key reason for us that we're continuing to stay very focused on it.

So putting all these different pieces together, I'm still confident that we're going to see a positive trajectory towards that 17%. I think to your point in and around timing, I do agree that with where we're currently at, it feels a little bit like you're pushing that a little bit back. And I think we're going to learn a lot about the overall environment that we're operating in from a Snacks perspective in the next six months, and that is going to be really important. And it's going to inform us also going into fiscal 2026 to make sure that we support our brands portfolio for long-term value creation.

Carrie L. Anderson

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

A

Just to pick up on what Mick said, in terms of, if you go back to some of our comments around Investor Day, we did outline a lot of those drivers and margin, and to Mick's point, those building blocks are still there. A key one is around favorable mix that should lead to margin expansion around growth in the leadership brands. And with a lower scale brand, so your partner or contract brands will be coming down over the next few years relative to the growth in leadership brands that will be a mixed driver along with what Mick talked about in terms of network optimization and our DSD optimization.

As it relates to both the warehousing logistics piece, but also as we talked about the route optimization pieces that we talked about last year, so all of those things are there. Obviously, we've got some short-term pressure that – top line pressure that's putting that pressure on the margin right now, but all of those levers are still there.

Kenneth Goldman

Analyst, JPMorgan Securities LLC

Q

Can I ask a very quick follow-up? And thank you for that Rao's, you kept your...

Mick J. Beekhuizen

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

A

Yeah.

Kenneth Goldman

Analyst, JPMorgan Securities LLC

Q

...you kept your guidance. The data has been decelerating in both one- and two-year basis or on those bases. How comfortable are you with the rate of change in consumption? I mean, obviously, you seem to be pretty comfortable given that you reiterated, but...

Mick J. Beekhuizen

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

A

Yeah.

Kenneth Goldman

Analyst, JPMorgan Securities LLC

Q

...how should investors think about what we're seeing from some of the syndicated and alternative data out there for that brand?

Mick J. Beekhuizen

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

A

Yeah. Yeah. Ken, thank you for asking the question because we are obviously also very focused on making sure that we continue to grow Rao's, also because I'm a very big believer in the brand and you do see it in the broader results. However, to your point, a little bit of that deceleration looks like between – in Q2 versus Q1. Now when you peel that onion a little bit further back, what you're going to find is that there's actually certain particular club activity that shifted between the two quarters. And as a result, going into the second half, we feel pretty good where all the different pieces come together in order to expect that that's slightly above, call it, 10% is what we are working towards to for the full year.

Kenneth Goldman

Analyst, JPMorgan Securities LLC

Q

Thank you.

Operator: Our next question comes from Peter Galbo from Bank of America. Please go ahead. Your line is open.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

Hey. Good morning, Mick and Carrie.

Mick J. Beekhuizen

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

A

Good morning.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

Thank you for the question. I wanted to circle back on the EPS cadence for the back half of the year. I believe, Carrie, in your remarks, you mentioned that EPS delivery would be relatively even between 3Q and 4Q if we kind of ignore the 53rd week. And I just – like very quickly going back through the history, that's just never been the case. 4Q has always been a much lower EPS delivery quarter relative to 3Q, maybe outside of one year over the past 20. But historically, it's been much, much lower seasonally. So just what gives you the confidence in delivering kind of on that even delivery in the back half of the year, given seasonality, given what we've seen historically, I think that's going to be just a big question from investors as they kind of contemplate the updated guidance?

Carrie L. Anderson

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

A

Yeah. I think as you think about the third quarter, a couple of things to think in mind is that, as Mick talked about, for Snacks top line, we wouldn't expect to see that stabilization until the fourth quarter. So you're still going to see some pressure there in the third quarter on the snacking margin as we move through the year. So I think our – my comment on that equal split, excluding that 53rd week is reflecting the fact that you'll still have some pressure there on the snacking side in the P&L.

And you also have, I think, the fact that in the fourth quarter, I think you're right, Peter, in terms of acknowledging that, that maybe not be the seasonal trend, but you've also got some – the benefit of lapping some higher promotional investment from last year that will help, obviously, the top line, but it'll also help the bottom line as well. So it's a piece – it's those two pieces that, I would say, are a big piece of how we think about the phasing for the third and the fourth quarter.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

Got it. Thanks, Carrie, for that. That's helpful. And Mick, just if I could, I think your tone has – or the company's tone has changed a bit in your prepared remarks as it relates to broth. It seemed like there was maybe a better delivery in the quarter, maybe even than you expected, and potentially that there's been a slight change in how you're viewing the back half as you think about private label coming back online. Not that that's not contemplated, but that at least maybe things are holding up a touch better. So just wanted to understand, anticipating the broth headwinds kind of whether your expectations have changed at all in the back half from maybe more negative to maybe slightly less negative versus your initial expectations? Thanks very much.

Mick J. Beekhuizen

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

A

Yeah. Yeah. Good observation. And you're right. If I look back at about, call it, even last quarter around the overall broth trajectory, I think it's probably twofold. I think on the one end, I think the category is holding up really well. And it comes back to what I described in my prepared remarks as well, in and around Meals & Beverages. We're definitely seeing that trend of continued cooking at home supporting a variety of the categories and a variety of the brands within our Meals & Beverages portfolio. And broth, with both Swanson as well as Pacific, being one of those.

And so category is doing well. We've got two great brands that continue to do well in the marketplace. And at the same time, private label is recovering, however, a little bit slower than anticipated. Now if I look at the back end, specifically to your question, yes, I still expect that to be a little bit of a headwind. However, a little bit less than what was previously anticipated.

If either the category performs better than what we expect or private labels recovering slower, we will obviously try to do whatever we can with our supply chain. They've done a phenomenal job in order to make sure that we can provide supply. We will continue to work with our customers to make sure that our product is on the shelf.

Carrie L. Anderson

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

A

Yeah. And I mentioned that in my prepared remarks that a reminder that Sovos moves into our organic growth mid-Q3, but we will still have the broth year-over-year headwinds as we lap the benefit that we had last year in the second half. But to Mick's point, lower than what we initially expected. And again, another shout-out to our supply chain team that is really over-delivering as it relates to satisfying that broth demand.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

Thank you.

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

Robert Moskow

Analyst, TD Cowen

Q

Hi. Thanks for the question. You mentioned on the call that competitive intensity in crackers is heightened now. And for the past three quarters or so, I think we've been dealing with competitive intensity being higher in salty snacks. So, Mick, do you view both of these as similar phenomenons? I can see it in the data, there's been price investments in crackers. Do you need to make similar investments for Goldfish to keep up with that? And should we be thinking about kind of a bit of a reset for the Goldfish margin as a result?

Mick J. Beekhuizen

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

A

Yeah. So – thank you, Rob, for the question. So first of all, of course, with regard to salty, you're right. It is a competitive category. We have experienced that for a couple of quarters. That being said, we have a couple of highly differentiated brands that are leaning a little bit more towards the better-for-you proposition in that particular category. And it's something that we are going to continue to build upon, specifically with regards to some of the innovation, and I mentioned that also in my prepared remarks. The categories that, call it, like subcategory within salty as a result that we are participating in is a category that has a little bit of tailwind. So I feel pretty good about it.

Now that being said, back to what I said earlier around price-pack architecture and making sure that we have a attractive value proposition, that's probably the second thing that we think a lot about and making sure that we, as a result, provide our product at the proper price points, including entry price point for the consumer in salty. So, salty, long story short, differentiated brands in combination with attractive innovation that plays right into some of those consumer needs. And then we need to make sure that we focus on the price-pack architecture aspects to provide that value to the consumer.

If I then go to crackers, I think crackers is a little bit of a different dynamic. So first of all, we have actually two brands within crackers. We have obviously Lance. Lance is doing well. And I think it is a brand that's obviously a little bit in the background, but it provides an attractive entry price point. It is great value for the consumer. And on top of it, it provides that portable protein proposition that consumers are looking for. So when I look at Lance, I

mean we've grown consumption there, share has been relatively flat, but I know the teams are working hard to continue to get more out there in and around Lance.

Then from a Goldfish perspective, to your point around what are we doing on that, as I mentioned earlier, that is a key focus area for us because it is a core brand for us. It's really important to make sure that we get Goldfish back to growth. And I don't look at it as a – or let's put it this way, I look at it much more like we need to really continue to reiterate our overall Goldfish proposition, which is very attractive. Goldfish is a brand that is generally well positioned, has grown with its core consumer. Yes, we are starting to lapse some of that crisps launch from last year, which obviously did really well. That's something that we're going to manage through. But the core Goldfish proposition is an attractive proposition that we need to continue to reiterate.

Now at the same time, back to your point around competitive intensity, we do need to make sure that we have the proper level of promotional activity, and that's what the team is currently working through. And that also comes back to having a proper entry price point, which has had reference to the price-pack architecture that I had earlier. So a lot of, call it, like moving pieces there. But I know the team is all over it. And obviously, Goldfish is a core brand for us to make sure that we're successful there.

Robert Moskow

Analyst, TD Cowen

Q

Okay. Can I ask a quick follow-up? Have you started...

Mick J. Beekhuizen

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

A

Yeah.

Robert Moskow

Analyst, TD Cowen

Q

...doing any math on what the tariff environment might mean for your steel can costs? I know it was an issue several years ago, and these...

Mick J. Beekhuizen

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

A

Yeah.

Robert Moskow

Analyst, TD Cowen

Q

...tariffs can be even more substantial than that. So would it pass through in terms of like price surcharges from your suppliers [indiscernible] (56:49)

Mick J. Beekhuizen

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

A

Yeah, maybe -- yeah, Rob, of course, maybe I'll actually talk a little bit more broadly about tariffs because it sounds like you dealt with some of this with Campbell's in the past. But kind of if I look at this particular situation, it's obviously evolving. It's multifaceted. It's, on the one hand, we have the country tariffs with both Canada and Mexico specifically for us, and then also some of the proposed steel and aluminum tariffs. When – and then there

might even be additional tariffs that we're obviously closely monitoring the situation and making sure we develop plans if they were to come to fruition.

Now with regard to the mention of the fluid situation, as you might have heard yesterday, the Commerce Secretary actually hinted yesterday, is that some of the country tariffs might actually be adjusted today. So again, we'll see what it all means. We don't know all the specifics yet. But if it gets implemented as we currently – as is currently announced, we are importing from Canada both tinplate steel, which is used in our cans, as well as canola oil used for our chips.

On the flip side, with some of the reference to the retaliatory tariffs, those mainly relate to Canadian exports. So we are producing our soup in the United States and we're importing it into Canada. And that would obviously have an impact on that business.

Now from a mitigation perspective, we're closely working with our suppliers to mitigate potential impact. At the same time, depending on how long these tariffs would be in place as well as the extent of the tariffs, we might need to take other actions. And that could include, for instance, pricing for some of our products. Now that being said, I'm obviously going to be very focused to make sure that we provide a good value to our consumers.

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.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2025 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.