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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Campbell Soup Second Quarter Fiscal 2021 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions)

I would now like to hand the conference over to your speaker today, Ms. Rebecca Gardy, Vice President of Investor Relations. Ma'am, you may begin.

Rebecca Gardy *Campbell Soup Company - VP of IR*

Good morning, and welcome to Campbell's Second Quarter Fiscal 2021 Earnings Presentation. I'm Rebecca Gardy, Vice President of Investor Relations.

Following the completion of this call, a copy of this presentation and a replay of the webcast will be available at investor.campbellsoupcompany.com. A transcript of this earnings conference call will be available within 24 hours at investor.campbellsoupcompany.com.

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 or our SEC filings for a list of factors that could cause our actual results to vary materially from those anticipated in forward-looking statements. Because we use non-GAAP measures, we have provided a reconciliation of these measures to the most directly comparable GAAP measure, which is included in the appendix of this presentation.

On Slide 4, you will see our agenda. With us on the call today are Mark Clouse, Campbell's President and CEO; and our Chief Financial Officer, Mick Beekhuizen. Mark will share his overall thoughts on our second quarter performance and in-market performance by division. Mick will discuss the financial results of the quarter in more detail and review our guidance for the full year fiscal 2021. Mark will come back to share his perspective on our outlook beyond the pandemic, and we will close the call with an analyst Q&A.

With that, please let me turn the call over to Mark.

Mark A. Clouse *Campbell Soup Company - President, CEO & Director*

Thanks, Rebecca. Good morning, everyone, and thank you for joining us today. Before I turn to the results of the quarter, I want to take a moment to thank all of our teams again, especially our frontline colleagues. We have now passed the 1-year mark of working within this challenging COVID-19 environment, and I'm very proud of their continued performance and dedication.

Campbell delivered strong second quarter results, with growth in all 3 key financial metrics. Organic net sales increased 5% with continued demand across both divisions, fueled by accelerating in-market results, including positive share progress across most of the portfolio and a strong holiday period. Net sales were tempered by continued foodservice weakness following a resurgence of COVID-19 cases in December, which led to greater away-from-home restrictions as well as some supply constraints given these cases led to

increased absenteeism rate in our plants during the month.

The foodservice weakness and supply constraints each created about 1 point of headwind in the quarter versus our expectations. The labor situation has since improved significantly, and we continue to make steady progress on supply going into the second half of the year.

We reacted quickly to these headwinds, appropriately shifting spending to reflect this pressure. But where supply was available, we executed our planned increased investment in advertising and consumer promotion on our core brands. Taking everything into account, we had 8% adjusted EBIT growth and 17% adjusted EPS growth, leading to a very good quarter.

By segment, Meals & Beverages posted 6% net sales growth, punctuated by a very successful soup season and the continued strong performance of brands like V8 and Prego. This was partially mitigated by declines in foodservice. The Snacks business delivered another solid quarter, with sales growth of 4%, largely driven by our power brands in salty snacks, including Kettle Brand potato chips, Late July snacks and Cape Cod potato chips, as well as Pepperidge Farm Farmhouse bakery products.

Most notably, we achieved the primary objective we outlined in our Q1 earnings call, to return to share growth. Nearly 75% of our portfolio held or increased share in the second quarter versus the prior year. This included meaningful share improvement in key focus areas like ready-to-serve soup, Prego and Snyder's of Hanover pretzels, with continued momentum on condensed soup, V8, our salty snacks portfolio and Goldfish. There were a few exceptions such as Swanson broth, where we knew we'd be challenged on supply. We feel very good about how we are addressing the challenges on broth by expanding overall capacity and growing Pacific Foods, which was the fastest growing broth brand in measured channels in the second quarter.

E-commerce continued to be an important growth channel for us, with in-market dollar consumption increasing 89% over the prior year. With the click-and-collect fulfillment model representing slightly more than 1/3 of our e-commerce retail sales, we are sharply focused on partnering with our customers to deliver value to our consumers, including bundling products for easy meal prep and inspiring creative snacking options.

Turning to Slide 7. Within the Meals & Beverages division, we had another strong quarter, with consumption growth of 9%, principally due to volume gains. We delivered on our objective of share growth and saw positive in-market consumption growth in almost all categories, led by condensed soups, Prego, V8 beverages, ready-to-serve soup and Pacific Foods soups and broth.

We continued to execute our plans and feel great about our progress against our Win in Soup strategy, led by a great start to soup season and a strong holiday period. In fact, U.S. soup sales grew 10%, with strength across all categories. This was fueled by more than 1/3 of the end market consumption growth coming from new buyers. The number of retained soup buyers in this quarter is the highest since the pandemic started almost a year ago.

Our condensed soups were once again the highlight of the quarter, with double-digit net sales growth and continued share gains, especially among millennials. With a 0.7 share increase, condensed had its eighth consecutive quarter of share gains, an amazing run that started well before the pandemic. This performance was driven by our quality improvements, strong advertising and the retention of the new households. Additionally, during the important holiday season, the number of buyers of condensed cooking soups grew double digits, and we continued to grow household penetration this quarter versus prior year. Year-to-date, our condensed soups have the highest household retention rate within the entire Meals & Beverage division.

Within ready-to-serve, share improved this quarter, driven by strong base velocity growth in Chunky and improved availability. Chunky had an exceptional quarter, with double-digit net sales gains and in-market consumption growth, outpacing competition and increasing share nearly 2 points with growth among all cohorts, including millennials.

Pacific Foods is now the fastest-growing wet soup brand on a dollar share basis, outperforming its competitors on many fronts by delivering on-trend innovation and impactful advertising. This important growth engine continues to perform above our expectations. In the second quarter, Pacific soup and broth outperformed the category, posting dollar consumption growth of 25%, the fifth consecutive

quarter of share gains driven by brand strength and a meaningful increase in household penetration. We are thrilled with the performance of Pacific Foods and are equally excited about our robust innovation pipeline that includes new canned offerings as well as additional plant-based products.

As I mentioned earlier, Swanson broth struggled on share as we expected. We continue to recover on supply throughout the quarter, and we are making steady progress through a combination of expanding internal capacity and bringing on additional co-manufacturing. In the most recent period, we are seeing both share and supply levels improve, a trend we expect to continue through the balance of the year.

Beyond soup, a standout in the Meals & Beverages portfolio was Prego, which maintained its #1 share position in the Italian sauce category for the 21st consecutive month and has widened the gap against competitors. Prego sales growth came primarily from the gain of an additional 4 million new households across all demographic cohorts.

Our V8 beverages also performed very well this quarter, delivering its fourth straight quarter of both share and household gains. Notably in Q2, these gains were across all sub-brands of the business. And we saw new households coming into the V8 portfolio, driven by both V8 original and V8 + Energy. Overall, Meals & Beverages delivered a strong quarter, as it continued to drive relevance with its brands to a younger consumer base and delivered share gains in many of its key categories.

Let's turn to the Snacks segment, which represents about half of our total annual revenue. Our performance was again fueled by our power brands, which grew dollar consumption by 8% over the previous year. Within the power brands, our salty snacks brands grew dollar consumption by double digits and realized share growth. This was in part due to the implementation of our capacity expansion projects as well as increased A&C investments to support our media campaigns and innovation, including Snyder's of Hanover Pretzel Rounds and Twisted sticks. On the Snyder's of Hanover brand, the combination of successful innovation, fundamental execution and brand activation led to share growth, double-digit dollar consumption and nearly 5 million new households, turning around what had been a challenging share period.

Our Pepperidge Farm Farmhouse products also delivered exceptional results across bakery and cookies, growing dollar consumption by 41% and household penetration by 1.5 points. On Goldfish, we improved our performance according to the plan we outlined last quarter, returning to growth in net sales and improved dollar consumption. We adapted marketing content during the holidays, with digital partnerships focused on new ways for the consumer to enjoy Goldfish, such as movie night snack mixes or classic lunch combinations with Campbell's tomato soup, all leading to positive engagement metrics and increased purchase intent. Additionally, we are launching new flavors within Flavor Blasted Goldfish, which continued to grow consumption by double digits.

As you'll see on Slide 9, this is only the beginning of what is arguably our strongest slate of innovation yet, which includes Twisted Pretzel sticks and better-for-you options, like Late July veggie tortilla chips. We are very excited about the breadth of our snacks pipeline in the second half of the fiscal year, which will complement what we have on deck later this year for Meals & Beverages. Overall, we feel very good about our Snacks performance and the steady growth it delivered as we provide consumers with elevated snacking experiences through our unique and differentiated portfolio of power brands.

We also made significant steps on value capture, including the recent transition to SAP to streamline and improve capabilities. Looking ahead, we believe we have additional runway to improve Snacks profitability with further network optimization opportunities. And we remain confident in our long-term strategy and our ability to deliver additional cost savings. With the strong results in the second quarter and our overall first half performance, we are confident in the outlook for the full year.

With that, let me turn it over to Mick to discuss our second quarter and first half financial results.

Mick J. Beekhuizen *Campbell Soup Company - Executive VP & CFO*

Thanks, Mark. Good morning, everyone. Turning to Slide 11. As Mark just shared, we once again delivered strong results with another quarter of sales growth, driven by continued elevated consumer demand as well as growth in adjusted EBIT and adjusted EPS. Our top line growth of 5% reflected healthy in-market consumption of approximately 8% in the quarter, tempered by declines in foodservice and

some COVID-19-related supply challenges that Mark discussed.

Adjusted EBIT increased 8%, as higher sales volumes were only partially offset by higher adjusted administrative expenses. Adjusted EPS from continuing operations increased by 17% to \$0.84 per share, reflecting an increase in adjusted EBIT as well as lower adjusted net interest expense.

Year-to-date, our organic net sales, which excludes the impact from the sale of the European chips business, increased 7%, driven by strong in-market consumption growth in both Meals & Beverages and Snacks. Adjusted EBIT increased 13%, reflecting higher sales volume, improved adjusted gross margin performance and higher adjusted other income, offset partially by increased adjusted administrative expenses.

Year-to-date, our adjusted EBIT margin increased year-over-year by 110 basis points to 18.5%. Adjusted EPS from continuing operations increased 23% to \$1.86 per share, reflecting the increase in adjusted EBIT and lower adjusted net interest expense. I'll review in the next couple of slides our second quarter results in more detail and provide guidance for the full fiscal year 2021.

Breaking down our net sales performance for the quarter. Reported and organic net sales increased 5% from the prior year. This performance was largely driven by a 4 point gain in volume across the majority of our retail brands, partially offset by declines in foodservice and in partner brands within the Snyder's-Lance portfolio. Additionally, we took a strategic approach to dialing back promotional spending in both segments where we faced supply constraints. And those actions, net of price and sales allowances, contributed 1 point to net sales growth.

Our adjusted gross margin decreased by 10 basis points in the quarter to 34.3%. While product mix was slightly negative in the quarter, we're estimating a 50 basis point gross margin improvement from better operating leverage within our supply chain network as we increased our overall production. Net pricing drove a 90 basis point improvement due to lower levels of promotional spending in the quarter.

Inflation and other factors had a negative impact of 330 basis points. A little over half of the increase was driven by cost inflation as overall input prices on a rate basis increased approximately 3%, which we expect to continue to be a headwind for the rest of the fiscal year. The remainder was driven by increases in other operational costs and continued COVID-19-related costs.

Inflation in the quarter was partially offset by our ongoing supply chain productivity program, which contributed 140 basis point improvement and included initiatives, among others, within procurement and logistics optimization. Our cost savings program, which is incremental to our ongoing supply chain productivity program, added 50 basis points to our gross margin.

Moving on to other operating items. Adjusted marketing and selling expenses decreased \$3 million or 1% in the quarter. This decrease was driven primarily by the benefits of cost savings initiatives and lower marketing overhead costs, largely offset by an 8% increased investment in A&C. These investments primarily reflect higher levels of media spend to support our salty snacks brands, including new product launches as well as our soup business, as we continue to drive usage through new recipes, inspire meal solutions and support our innovation.

Adjusted administrative expenses increased \$17 million or 13%, driven primarily by higher benefits-related costs and higher general administrative costs, partially offset by the benefits from our cost savings initiatives. Overall, our adjusted marketing and selling expenses represented 10.2% of net sales during the quarter, a 70 basis point decrease compared to last year. Adjusted administrative expenses represented 6.7% of net sales during the quarter, a 50 basis point increase compared to last year.

Moving to the next slide. We have continued to successfully deliver against our multiyear enterprise cost savings initiatives. This quarter, we achieved just over \$20 million in incremental year-over-year savings. We expect an additional \$40 million to \$50 million evenly spread over the balance of fiscal 2021, on track to deliver \$75 million to \$85 million of cost savings for the fiscal year, with the majority of the savings from the Snyder's-Lance integration. We remain on track to deliver our cumulative savings target of \$850 million by the end of fiscal 2022.

To help tie this all together, we are providing an adjusted EBIT bridge on Slide 16 to highlight the key drivers of performance this quarter. As discussed, adjusted EBIT grew by 8%. This was driven by the increase in demand for our products, with sales gains contributing \$40 million of EBIT growth, which was partially offset by the previously described adjusted gross margin decline. In addition, the increase in adjusted administrative expenses was only partially offset by lower adjusted marketing and selling expenses, lower adjusted R&D expenses and higher adjusted other income. Our adjusted EBIT margin increased year-over-year by 40 basis points to 17.2%.

The following chart breaks down our adjusted EPS growth between our operating performance and below-the-line items. Adjusted EPS increased \$0.12 from \$0.72 in the prior year quarter to \$0.84 per share. Adjusted EBIT had a positive \$0.07 impact on adjusted EPS. Adjusted net interest expense declined year-over-year by \$17 million, delivering a \$0.04 positive impact to adjusted EPS as we have used proceeds from completed divestitures in fiscal 2020 and our strong cash flow to reduce debt. The impact from the adjusted tax rate was nominal, completing the bridge to \$0.84 per share.

In Meals & Beverages, net sales increased 6% to \$1.3 billion, primarily reflecting strong volume growth, driven by in-market consumption for many of our U.S. retail products, including gains in U.S. soups, V8 beverages, Prego pasta sauces and Campbell's pasta, partially offset by declines in foodservice driven by COVID-19-related restrictions. Net sales of U.S. soup, including Pacific Foods, increased 10% compared to the prior year, primarily due to volume gains in condensed soups and ready-to-serve soups. Across the division, we moderated promotional activity, in part due to supply constraints, particularly on broth.

Operating earnings for Meals & Beverages increased 7% to \$258 million. The increase was primarily driven by sales volume growth, offset partially by a lower gross margin and higher administrative expenses.

Within Snacks, net sales increased 4%, driven by volume gains, fueled by the majority of our power brands and lower levels of promotional spending on supply-constrained brands. The sales gains were driven by our salty snacks brands within the power brand portfolio, namely Kettle Brand potato chips, Late July snacks, Cape Cod potato chips and Pop Secret popcorn as well as our fresh bakery products, including Pepperidge Farm Farmhouse products. Partially offsetting sales gains were declines in partner brands within the Snyder's-Lance portfolio as well as declines in Lance sandwich crackers resulting from supply constraints in the quarter. Operating earnings for Snacks increased 6%, driven by sales volume gains and lower selling expenses, partially offset by higher marketing investment, administrative expenses and a lower gross margin.

I'll now turn to our cash flow and liquidity. Fiscal year-to-date cash flow from operations decreased from \$663 million in the prior year to \$611 million as changes in working capital were only partially offset by higher cash earnings. Although we continue to make progress on working capital, we are lapping significant benefits and accounts payable in the prior year.

Our year-to-date cash for investing activities was largely reflective of the cash outlay for capital expenditures of \$132 million, which was \$35 million lower than the prior year, primarily driven by discontinued operations. Our year-to-date cash outflows for financing activities were \$405 million, reflecting cash outlays due to dividends paid of \$215 million, which were comparable to the prior year, reflecting our quarterly dividend of \$0.35 per share. In December, we announced an increase in the quarterly dividend to \$0.37 per share or an increase of 6%, which, from a cash flow perspective, will be reflected in the third quarter. Additionally, we reduced our debt by \$176 million.

We ended the quarter with cash and cash equivalents of \$946 million. We expect to utilize the majority of this cash during the second half of the fiscal year for repayment of upcoming debt maturities of \$721 million and \$200 million in March and May, respectively.

As covered in our press release, based on our strong first half performance, we are providing guidance for the full year fiscal 2021. We expect net sales for fiscal 2021 to decline 3.5% to 2.5%, Excluding the impacts from the 53rd week in fiscal 2020 and the impact of the European chips divestiture, we expect organic net sales to decline 1.5% to 0.5%. We expect adjusted EBIT of minus 1% to plus 1%, as we will lap the initial COVID-19 demand surge in the second half of our fiscal year, combined with headwinds from increased promotional activity, partially offset by lower year-over-year COVID-19-related expenses and last year's onetime marketing investments.

We continue to expect net interest expense of \$215 million to \$220 million and an adjusted effective tax rate of approximately 24%. As a

result, we expect adjusted EPS of \$3.03 to \$3.11 per share, representing year-over-year growth of 3% to 5%. The EPS impact of the 53rd week in fiscal 2020 was estimated to be \$0.04 per share.

With respect to our guidance, let me add that we expect the third quarter to be somewhat more challenged from a net sales and EBIT perspective than Q4, as the before mentioned COVID-19-related demand surge was more pronounced in the third quarter of fiscal 2020 while the benefit from COVID-19-related costs and onetime marketing investments will disproportionately benefit our fourth quarter comparison.

Additionally, we expect our third quarter to be impacted by some isolated supply challenges as we navigate the recent winter storms. In particular, we experienced about 2 weeks of disruption at our Paris, Texas plant, which produces Pace and Prego. We expect improving momentum as we go forward. Regarding capital expenditures, in light of the current operating environment, with limited access to our factories, we now expect to spend 10% below the \$350 million we had previously indicated for the full year, largely driven by the impacts from COVID-19 on the operating environment.

Before I turn it back to Mark for some additional commentary, let me close by expressing how proud I am of the continued strong execution by our teams throughout the company. We delivered another strong quarter, with a return to positive share growth in the majority of our portfolio and growth in all 3 key financial metrics despite all the challenges of COVID-19.

Mark?

Mark A. Clouse *Campbell Soup Company - President, CEO & Director*

Thanks, Mick. Before we conclude, I want to share my perspective on the key factors underpinning our confidence in our outlook beyond the pandemic.

By now, I know you have heard a great deal about the stickiness of all new households gained throughout the pandemic from essentially all of our peers, with a wide range of data, in fact, supporting that thesis. We very much agree, and we see similar trends in our own research and data.

I'd like to conclude today with 3 critical and differentiating points, key factors that serve to underscore Campbell's advantaged position going forward and will fuel our future growth trajectory. Importantly, 2 of them have very little to do with COVID-19 or the stickiness of new households.

The first is our Snacks business, which, as I mentioned earlier, consists of a unique and differentiated portfolio of brands that represent approximately 50% of the company's annual revenues. This business was growing before the pandemic, and we expect to sustain or exceed those historical growth rates going forward. Snacks also includes a margin structure which we believe still has significant opportunity for improvement versus the snacking peer group average, even after we deliver our current value capture. We are finalizing our plans to unlock more value, and we look forward to sharing more details with you as we move forward.

Second, no matter where you stand on the retention of new households gained during the pandemic, it is undisputable that Campbell's business, particularly our Meals & Beverages division and especially soup, is coming out of this period more advantaged and with renewed relevance. Nearly 13 million new households purchased Campbell soup since the initial peak of the pandemic, of which almost 1/3 are millennials, outpacing both key competitors and the category average.

We have also seen macro behaviors, like quick scratch cooking, take root. And our research indicates more than 30% of consumers are cooking more with soups since the start of the pandemic. Additionally, we believe increased at-home lunches will endure as many people are expected to work from home more often post pandemic. Beyond the role that our Meals & Beverages offerings play in the lunch occasion, snack foods accompany nearly 30% of all lunches, which bodes well for our entire portfolio.

We've conducted extensive consumer research in an effort to determine sentiment, model consumer behavior exiting the pandemic and sharpen our plans to ensure the sustainability of our recent gains. The consumers who we've surveyed had an overall high level of

satisfaction with Campbell's products in our Meals & Beverages and Snacks portfolio. In fact, about 4 out of 5 new users surveyed said they were very or extremely satisfied with our brands.

As a result of this high satisfaction, those surveyed told us they'll continue to count on our brands going forward, turning to us for things like cooking solutions and quick lunches and meals. This gives us every reason to believe consumers will continue to purchase our brands well after the pandemic.

Even more importantly, 70% of the consumer surveyed told us our brands better met their needs than competitive products. These same consumers also told us the taste and convenience of our brands were the top drivers of overall satisfaction. We feel this sets us up well for continued share progress going forward.

The research also has provided us with actionable insights in our opportunities to strengthen the retention of our consumers. These include areas such as: adding more convenient packaging options and sizes across our portfolio, developing new and inspiring recipes, and satisfying consumers' need for permissible and more intense snacks by providing a variety of flavors and healthier ingredients. This specificity will focus our plans and innovation to target the areas with the highest probabilities of retaining these new consumers, particularly younger consumers for our brands.

For the third and final differentiating point that underscores our strong position going forward, we look to the strength of our balance sheet. Given the cash-generative nature of our business and our reduced leverage, which is now below 3x, we are well positioned to generate significant cash flow, well above our ongoing commitment to base capital investments and dividends in the next 3 years. This can and will be a source of opportunity that can be invested in high ROI initiatives or other actions to drive value creation.

So to wrap it up, our mission is clear: number one, sustain or accelerate our historical snacks growth while improving margins; number two, solidify our Meals & Beverages business as a steady and stable contributor behind recent transformational consumer trends and trial; and number three, deploy what will be significant capital to fuel this growth and create differentiated value. We look forward to sharing more in the months ahead about this next chapter as Campbell moves from turnaround to sustainable growth.

And with that, operator, let's open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Andrew Lazar from Barclays.

Andrew Lazar *Barclays Bank PLC, Research Division - MD & Senior Research Analyst*

Mark, I first wanted to just touch base a little bit on organic growth in the quarter. You went through some of the factors that limited organic growth maybe relative to your ongoing assumptions. One would assume, obviously, foodservice recovers a bit, of course, as restrictions are lifted and such.

But I'm trying to get a better handle on where the company is around supply and capacity. Is that largely behind the company at this point? Or does some of that still linger? And the reason I ask you is I'm trying to get a better handle on the relationship between sort of consumption and shipments as we go through the fiscal third quarter.

Do those -- are those more consistent with each other? Is there the opportunity to rebuild inventory such that shipments maybe exceed consumption for a period of time? I'm trying to get a handle on that, and then I've just got a quick follow-up.

Mark A. Clouse *Campbell Soup Company - President, CEO & Director*

Yes. So a couple of thoughts. First, again, I think as we said in our comments, a bit frustrating, of course, to see the top line when the underlying fundamentals are as strong as they are. In-market consumption was up 8%. And a really important step forward for us was the shift in share performance, where we had 75% of the portfolio growing share, including some businesses that were really important

for us to get back on our front foot, like ready-to-serve soup, for example, and Snyder's of Hanover pretzels. Both of which had been a bit challenged on share, and we wanted to make sure we turned them around.

I guess the other good news about the timing and sequence of some of the pressure we experienced, we had all of the inventory in place for the holiday and kind of the key drive period, which is why we did so well during that time frame in-market. Where it hurt us was a bit in the replenishment of that as we were exiting the quarter. And as you said, driven really by 2 things. The significant step back up in COVID cases was the root cause, but it impacted both our foodservice business as well as absenteeism specifically in our plants. We were -- in the month of December, we crossed the double-digit line on absenteeism, which was really the highest we had seen, which really did reduce a little bit of our firepower as we had expected to be able to get in front of consumption and ship a bit ahead of it.

The good news is, both of them I would describe generally as episodic in nature, and that as we finished the quarter and went into Q3, both of those we're seeing normalize and improve. And remember, in Q3, one of the things that we're going to have as a dynamic is that we shipped about 12 points behind consumption a year ago in Q3.

And so as you think about that overall shipment-to-consumption comparison, despite the fact that -- in the spirit of a lot of volatility in our world today, despite the fact we're going to have to navigate a little bit of this pressure out of Paris, Texas, where our plant was closed for a couple of weeks, that plant makes primarily Pace and Prego, just as a reference point. But we expect the overall elements to be positive as it relates to shipments versus consumption, but with a little bit of choppiness as we go into Q3. As we roll through the back half, we're feeling very comfortable that we'll be back in a strong position.

I think also of note, we've talked a bit about the recovery of the SKUs that we had swapped out for base business during the pandemic. All of those are back up and running that we're going to return is -- if you look at our numbers today, you'll see about a 6% decline in TDPs. We expect that to be about 3% ongoing. The reason you're not seeing all of it is some of those items are still in pipeline. But as the quarter unfolds, we expect that all to be back in place as we manage through the back of the year.

So a little bit of a longer answer, but I know a very important element to get your hands around. So I think there's reasons to believe that we'll see that room to catch up a little bit and kind of get back on our feet as it relates to inventory.

Andrew Lazar *Barclays Bank PLC, Research Division - MD & Senior Research Analyst*

Great. And just a very quick one. It might be too early, but in markets where we've seen certain restrictions get lifted, maybe fully lifted in some cases, and getting back to some form of normalcy, I appreciate all the survey work you've done and a sense of where consumers surveyed heads were at.

Any sort of real-time data that you see in some of these regions or states that have more fully reopened around what maybe retention has looked like in actuality? I realize it's still on the early edge of things.

Mark A. Clouse *Campbell Soup Company - President, CEO & Director*

Yes. It's a little bit too early. But what I can tell you we've done is we've created essentially a bit of a map of the country in evaluating the specificity of different data points in conjunction with reopening. And so us, like you, are looking for those proof points to validate what is a lot of hypothesis that we have. And so I would say it's too early to give you any conclusions, but we're set up well to read that as quickly as possible, make any adjustments we need and really begin to put some facts, specific facts behind some of those assumptions we've talked about.

Operator

Our next question comes from Ken Goldman from JPMorgan.

Kenneth B. Goldman *JPMorgan Chase & Co, Research Division - Senior Analyst*

So I wanted to pick up a little bit where Andrew just left off. It sounds like most of the work you've done on the stickiness side is still theoretical. And I appreciate that you're doing some really good work in terms of surveying consumers and so forth. But we're in such unique times that I just wonder how much weight we really should put on things like surveys at this point just given that I don't think

consumers necessarily know what they're going to do coming out of this. And -- but I would love for you all to be right, all my CEOs to be right. It will be much more fun to cover a space where things are growing and sales are good than the opposite.

But is there any -- I guess what I'm getting with this, is there any particular data point that you have that gives you the amount of confidence that you might need to make the kind of confident statements that you're making today about stickiness? And I'm not trying to push back. I really just want to understand it, Mark.

Mark A. Clouse *Campbell Soup Company - President, CEO & Director*

Yes. Sure. Sure, Ken. No. Look, I understand the question. And certainly, this is not a unique conversation. And it happens pretty frequently these days in our industry.

I will say we did a few things. And we have targeted our research in a few ways to try to inform certain thinking that's just simply different than how many people are going to continue to cook or how many people are claiming that they'll continue to use our products.

I'd kind of give you 2 areas: One, we've gotten a lot sharper on how we feel using the survey work to really understand how we hold up against competitive choices. Because one of the things that I think will matter a lot here very quickly as we start to lap the initial surge and get into COVID is how do we feel about our comparative position and, therefore, our ability to manage through share-positive performance or differentiated performance. And that was an important part of the work that we've been doing and trying to identify where we think we're in stronger positions.

And I was pleased. I was really pleased with some of the items that are in more competitive spaces. And setting aside for a moment whether you're going to continue to use us, did you feel we perform better than some of our competitors, I think is an important insight and a little different than just, are the households going to remain sticky?

I think the other thing that we're doing a lot of is looking for places where we could be exposed where there may be dissatisfiers. So instead of just simply focusing our work on trying to build the case or prove the point that people are going to keep using it, we actually kind of spun it around the other way and really looked at why you wouldn't keep using it. What were the barriers? What were the things that we could be doing differently in our brands? And we're using that very rapidly as we try to inform things like innovation as well as our marketing to try to really kind of go at those areas a little bit more head on.

So -- and again, as I've said a couple of times, I recognize that until we have facts and kind of points on the board, this remains theoretical. But it is hard to imagine that no matter where you are on that continuum, a business like our Meals & Beverage and our soup business isn't going to be -- even in a modest interpretation, in a better position than it would have been coming into this. And I think that is something that, obviously, quantifying it will be important.

But I do feel very comfortable in suggesting that just through the trial and experience and the work we've done -- and remember, we don't have the benefit of seeing how all that work would have done pre-pandemic. But I was fairly confident that a lot of the things that we had put in place before were going to help improve this business as well.

Kenneth B. Goldman *JPMorgan Chase & Co, Research Division - Senior Analyst*

No. I think that's very fair on a qualitative level. I would just hope that as you think about guiding ahead and so forth, maybe it would behoove a lot of companies to not assume as much stickiness as they think will happen and then maybe surprise to the upside. But I will leave it there.

Mark A. Clouse *Campbell Soup Company - President, CEO & Director*

Yes. And one thing I'll just say, Ken, as you leave, I mean that was also part of the reason why I wanted to highlight a few things that are really not related to COVID within our portfolio. I mean remember, we've got 50% of our business that is Snacks business that has been growing pretty steadily before and through. And we really expect it to continue to grow afterwards. Not all of our peers have that particular composition.

And further to that, again, I know I'm kind of baiting the hook here for conversation on margin around Snacks. But there is, I think, a continued opportunity for value creation. And with the work that we've done on our balance sheet, our ability to invest thoughtfully and in a disciplined way to create value, I think gives you some reasons to think about the business differently that doesn't require anything as it relates to stickiness of households. And so I want to -- I know a lot of discussion is around household retention, but we've got a couple of really big things in the business that are far less related to that.

Operator

Our next question comes from Bryan Spillane from Bank of America.

Bryan Douglass Spillane *BofA Securities, Research Division - MD of Equity Research*

And I guess I'll take the bait on the hook, right, in terms of margins in Snacks. But maybe, Mark, if you could maybe tie that into also capital allocation, right? Because you've talked about that. And arguably, that's going to be the more important driver once we get past whatever the pandemic is.

So I guess 2 related questions: One, does an acquisition that creates more scale in Snacks, is that a pass to higher margins? And then the second, just as it relates to capital allocation and I think what you're implying in terms of M&A, maybe could you think about how Campbell's -- and M&A strategy at Campbell's might line up relative to some of the companies you've been at before, right? Pinnacle was pretty good at it. Obviously, Mondelez was a creation of a lot of M&A. So just trying to get a sense of how you're thinking about that capital allocation.

Mark A. Clouse *Campbell Soup Company - President, CEO & Director*

Yes. Okay. So let me start a little bit with the Snacks question. And again, I really do expect us in the next few months, again, not to put a particular date, but I do imagine as we go into the fall, we're going to be in a good position to have a more robust dialogue with you about kind of this next chapter of the company's strategy, which will include, in my mind, a lot more granularity around some of the things that we're talking about now.

But I will say this. On the margins on Snacks, if you look at kind of where we are in our journey right now, we're about 80% of the way through value capture. We're now up and running on SAP, which is a really important step, as many of you know, in these integrations and transitions. And so it's allowing us to continue to build our insights as we look forward.

And where that value capture has put us, if you think about the beginning of the journey to where we are now, the gap between our margin and kind of the snacking averages, we've closed about 1/3 of that gap. So there's still about 2/3 of that remaining.

And if you look at the reasons why, and you kind of start from manufacturing all the way to the store, you see a fair amount of inefficiencies even after we complete the value capture. That gives us a lot of confidence that we're going to find opportunities. For example, we've got 1,300 locations holding inventory right now in our supply chain. And yes, no matter how you cut the pie, that is not our most efficient foot forward.

And so our ability to go after each of those elements with kind of a next wave of plans gives me a lot of confidence that we can reduce that gap further. And again, quantifying that and giving you a little more clarity on the building blocks, we will do that, but not today. So we're working on it and more to come. But I think there's a lot of reasons to believe. And if you pair that with what the growth rate of this company is and what we continue to see as improved opportunities, as we move from integration orientation really to growth and focus on innovation, we feel very good about it.

And so if you think about some of that work, there may be some investment opportunities that are there. So as we think about capital priorities, kind of pivoting now to your second question, first of all, our capital priorities as a company remain the same. We invest in the company. We pay our dividend. We continue. At this point, we've really done a good job of managing down debt, so we're quite happy with that progress.

And then we're looking in a very disciplined way. I mean you mentioned some prior historical places that I've been that I think have had

very good decision matrix, very good discipline. Our focus continues to be things that we believe are highly aligned or nearing adjacencies to our core strengths. And I think there is a role that M&A can play. But it's in conjunction with also evaluating where we can invest in the company and generate high returns.

I think the important thing to note is that we will apply that discipline, but we're going to be applying it to an availability of capital that, as you say, I think, is going to be a very, very important indicator of value. And especially as you think competitively across places to go, I'm feeling very good about our flexibility and capability to generate a significant amount of value in that space.

Does that make sense, Bryan?

Operator

Our next question comes from Jason English from Goldman Sachs.

Jason M. English *Goldman Sachs Group, Inc., Research Division - VP*

I'm going to take another nibble at that hook from a slightly different angle. I hear you loud and clear, Mark, if we benchmark against some of the bellwhethers in the space, like a Frito or a Mondelez, but that just seems like an unfair comparison.

If I look at, say, your 18% to 19% EBITDA margins in Snacks, they look great, especially when I contemplate you're somewhat subscale relative to the big leaders, your profit sharing arrangement with independent distributors. Your portfolio is exceptionally complex. And you've got a decent chunk of Lance sales that are derived on a pretty low price point, suggesting that it's not really a cost per ounce issue. It's a price per ounce for much of that.

So how is attacking costs like -- where are the opportunities? Because when I look from the outside looking in, I don't really see the opportunity. I see a business that's sort of already been rightsized in terms of margin and one that's probably where it should be. What am I missing? Can you put more teeth on this one, please?

Mark A. Clouse *Campbell Soup Company - President, CEO & Director*

Yes. I mean I think it's really, Jason, is if you look at the redundancy and the inefficiencies that exist in a network that was built independently and really not through the lens of efficiency. I think the -- as you described, the complexity of our portfolio, there is no question that what is a little unique about us is the opportunity, I'd say, both the scale and strength of operating within 2 aisles of the store.

But our portfolio is really not as complex as you may think. The partner brands is something we've been working hard on over the last 2 years. And we've got a little bit of work still ahead of us to make sure that we've got the right partnership model that enables us to eliminate a lot of that complexity while still generating the benefits. So still more work to do there.

But I think if you really kind of go from our manufacturing footprint, to our distribution and warehousing footprint, all the way to our route to market, you're going to see opportunities across all 3 of those buckets where we're going to be able to drive greater levels of efficiency than what's there today.

And again, the good news here is, it doesn't necessarily require us to get to a Frito-Lay or to the highest end of the Snacks margins. But even as we move into closing that gap, there's significant value to be created. And as you think about kind of our historical growth rate of 3% with a headwind of about 1%, as we've navigated kind of the managing down of the partner brands, I think you could expect that growth rate to at least continue, if not improve, as we go forward. And so you put those pieces together, and I think the contribution of what represents 50% of our company becomes a significant benefit and a tailwind for us that I think can continue to contribute going forward.

Now in fairness, Jason, I think you, like others, are going to want to see a little bit more of that blueprint, and I get that. And that's what we're working on now and certainly would anticipate sharing more granularity with you as we go forward. I kind of raise it now though because I think a lot of the conversation, rightfully so, is about what's coming next, where our company is focused in the future coming

out of the pandemic. And I point to this as just an area that's not related, kind of to Ken's question earlier, on stickiness of households. This is really about our ability to execute and to identify those areas within our own existing business model.

Operator

Our next question comes from Robert Moskow from Crédit Suisse.

Robert Bain Moskow *Crédit Suisse AG, Research Division - Research Analyst*

I have a different kind of question about Meals & Beverage. There's been capacity constraints for about a year, for understandable reasons. You say a lot of it has to do with labor absenteeism but also just overall capacity.

So I was curious. As you entered this year, in retrospect, is there more that the company could have done to either hire more or take on more co-packing capacity to meet this surge in demand? And did you choose not to? Did you say, we're going to choose not to do that? Maybe it's not the sustainable thing to do.

And then the second part of this is, as you get more data on the stickiness, what happens next? Do you then have to take those steps? Do you have to expand soup? Do you have to expand sauces capacity? There's a lot been talking -- a lot of talk here about Snacks. But are the things that you're going to have to do in Meals & Beverage to cope with a higher demand plateau?

Mark A. Clouse *Campbell Soup Company - President, CEO & Director*

Yes. No. It's a very fair question and one that I can tell you we've spent a fair amount of time asking ourselves.

I think let me start with the labor standpoint. I really don't think there's any more we could have done on hiring. I mean we have hired 20%, an additional 20% of our entire workforce over the course of the pandemic. And we did that because we understood that we needed some flexibility as it related to our protocols around quarantining as well as the expanded demand that we were seeing. So when I think about, did we let up there at all or should we have pushed harder, there really was not anything more that I can see that we could have done on the hiring side. There simply ran into -- and if you think about where some of our facilities are, there just was a limit to how many -- how much availability we ultimately had to incrementally hire. But it was certainly not for lack of effort. I can tell you the career fairs around the country, and I'm happy that we were able to hire 2,000 people. I think that was a -- it came at a good moment.

But certainly, would it have been nice to continue to have a little bit of more flexibility? Certainly in the month of December and January where we saw this renewed surge, it would have been helpful at that moment. But I think the teams have done a very good job at trying to maximize what that potential is.

On the capacity side, so what have we been doing or what have we done? I think it's a little different by brand. If you really look under the hood and you say, okay, where is the real pressure on capacity? I mean notwithstanding a bump or 2 or a winter storm like we may be dealing with in Paris, Texas right now. The biggest concern that we've had is on broth. And there, we have already made the commitment to invest in capacity. We are in the process of putting that in place. It is -- I will say it's been a little tougher and a little slower through the pandemic installing new capital as it might have been in a normal period. But there's no question about the commitment and what that will mean for us when we have that up and running as well as creating a very healthy network of co-manufacturing that helps us ebb and flow.

And Rob, you talked a little bit about the future. Remember, part of the dynamic on the Meals & Beverage businesses are these peaks and valleys as it relates to seasonality. And part of what we're doing is creating a network that allows us to create more flexibility and flex a bit more to the upside. Let's say, we're on the high end of our assumptions, that we can flex there. Let's say, we're on the lower end. We can flex to there and still be responsible as it relates to capital, while still enabling us to meet all of the ongoing dynamics of building inventory into soup season and matching kind of that footprint.

So I do feel very good about the investments we've made and what we've done to add some flexibility to our business to be able to handle a variety of different situations. Part of the pressure has been to get back into some of these SKUs, that were B and C SKUs that honestly have been very, very important and key to us regaining share that we've had to put back in place. But we're now in a pretty good position

on those and are really coming back fully. And so I feel good about the future, but that's kind of the dynamics that we've gone through as we've thought through that.

Operator

And that does conclude our question-and-answer session for today's conference. Ladies and gentlemen, this concludes today's conference call. Thank you for your participation, and you may now disconnect. Everyone, have a wonderful day.

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