Campbell's

Fourth Quarter Fiscal 2024 Earnings Conference Call
Management's Prepared Remarks
August 29, 2024

Corporate Participants
Rebecca Gardy, Chief Investor Relations Officer
Mark Clouse, Chief Executive Officer
Carrie Anderson, Chief Financial Officer

Rebecca Gardy, Chief Investor Relations Officer

Slide 1: Title Slide

Slide 2: Rebecca Gardy Headshot
Good morning, and welcome to Campbell's fourth quarter fiscal 2024 earnings conference call. I'm Rebecca Gardy, Chief Investor Relations Officer at Campbell's. And joining me today are Mark Clouse, 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, campbellsoupcompany.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 3: Forward Looking Statements
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.

Slide 4: Agenda
Slide 4 outlines today's agenda. Mark will provide insights into our fourth quarter and full year performance as well as our in-market performance by division. Carrie will then discuss the financial results of the fourth quarter and full year fiscal 24 in more detail and outline our guidance for the full fiscal year 2025, which we provided this morning. As a reminder, we completed the acquisition of Sovos Brands on March 12, and as such the full fiscal year 2024 financial results include a partial year contribution from Sovos Brands. And with that, I'm pleased to turn the call over to Mark.

Mark Clouse, Chief Executive Officer

Slide 5: Mark Clouse: Headshot
Thanks, Rebecca. Good morning, everyone, and thank you for joining our fourth quarter fiscal 24 earnings call.

Slide 6: Q4 FY24 Key Messages
In Q4 we continued to successfully navigate the evolving consumer landscape and delivered solid results; including, sequential volume improvement across both divisions, a second consecutive quarter of double-digit, year-over-year adjusted EBIT growth and adjusted EPS growth, underpinned by sequentially improving margins on both businesses.

It also marks the end of a dynamic year during which we drove significant progress against our strategic plan. In addition, we continued to see momentum on the Sovos Brands business and advanced the integration of the best growth story in food into our Meals and Beverages business.

In-market performance was still mixed, but improved for both divisions, with substantial volume driven progress on Meals and Beverages and sequential improvement on Snacks. While the Snacks category recovery is unfolding at a somewhat slower pace than we'd like, it continues progressing in the right direction. Finally, we also introduced Fiscal 25 guidance today which reflects our expectation of steady progress and incorporates an appropriate level of pragmatism as we continue to navigate the recovery of Snacks in the first half of the year. Carrie will provide more details in a moment.

While we remain vigilant as we head into Fiscal 25, we have also never been more confident in the strength and long-term trajectory of our businesses. We remain steadfast in our view that consumer behavior will continue to normalize, and that we are uniquely positioned to deliver sustained and dependable growth with one of the best portfolios in all of food. We look forward to sharing more of this story at our Investor Day on September 10th in New York.

Slide 7: Key Financial Highlights
Turning to slide 7, organic net sales in the fourth quarter declined 1% compared to the prior year. As we expected, volume improved sequentially and both adjusted EBIT and adjusted EPS increased by double digits. The Sovos Brands acquisition was approximately neutral to adjusted EPS, which again exceeded our expectations.

In-market consumption was essentially flat compared to the prior year, and the one point of difference in organic net sales versus consumption was primarily driven by headwinds from partner brands and some trade phasing, both of which were in our Snacks business.

On a full year basis, we were down slightly on topline, while growing adjusted EBIT and adjusted EPS. I'd note that adjusted EPS at $3.08 for the full year put us roughly at the midpoint of our most recent guidance.

Slide 8: The positive trajectory in food continues to improve; volume/mix in both divisions now positive
As I mentioned, the trend of sequential volume and mix improvement we have experienced over the past two quarters continued in Q4. We were encouraged to see growth in Meals & Beverages of 2% and Snacks remain stable in the quarter. This trend continues to reflect the improving consumer dynamics, including total food's move this quarter into positive territory for both dollars and units.

Strong consumer metrics support this continued progress including roughly 70% of edible categories growing household penetration similar to Q3, and for the first time in a while, the recovery is beginning to extend to lower and middle-income households. The one negative indicator was a modest reversal in consumer confidence in the fourth quarter signaling the somewhat fragile state of the consumer, and why being prudent on expectations still makes sense. However, overall, as we have said before, we continue to see the recovery of the consumer environment not as a question of "if", but rather a question of "when".

Slide 9: Campbell's momentum also accelerated with the addition of Sovos Brands

On slide 9, I want to briefly expand upon the material benefit we are experiencing with the integration of Sovos. While our Q4 Net Sales declined 1% from the prior year on an organic basis, including the pro forma contribution from Sovos, total company growth would have increased 150 basis points. There is also a 110-basis point benefit to volume / mix resulting in an approximately 2% pro forma growth rate on volume and mix for the total company. This growth continues to pace ahead of our initial estimates and reflects the strength and the resilience of the Sovos business's growth, especially the Rao's brand.

Slide 10: Meals & Beverages

Moving to our Meals & Beverage division on slide 10, we achieved growth of 1% in organic net sales in the quarter compared to the prior year. More importantly, that growth was fueled by a 2% volume growth, offset by a point of planned net pricing investment.

On a pro forma combined basis with the addition of Sovos brands, Meals and Beverages' net sales grew 4%, also fueled by volume and mix growth and consistent with in-market consumption. This is the second quarter of strong performance across our legacy Meals & Beverages businesses and Sovos brands, both fueled by volume growth an important indicator that is building confidence in the improving potential of our Meals and Beverages division going forward.

Slide 11: Soup share improved in Q4, with category and Campbell's $ consumption accelerating into the fall

Moving to more good news on page 11, our Soup business also strengthened in Q4, and is building even more momentum in the latest 4 weeks, with dollar consumption up 2% and 6% respectively, as we head into soup season. Campbell's wet soup dollar consumption increased 2 points during the fourth quarter, surpassing the category average by approximately 1 point.

Notably, we did experience robust share gains in our Swanson broth business as a major private label supplier was experiencing supply constraints. It is important to note that although our share was helped by this dynamic, the category trends are also very healthy, up double digits, creating a great opportunity for Swanson to add new households. Underlying category growth continues to benefit from the consumers pulling back on eating meals away from home, in favor of home cooking.

The one remaining area of focus on soup is ready-to-serve where we are experiencing category pressure and some trading down. We expect both dynamics to improve as the weather changes, and the role of ready-to-serve at lunch becomes more relevant. We are already seeing some stabilization and are confident about our robust pipeline of innovation and marketing across our Chunky, Pacific, and Rao's brands.

Overall, this quarter we also answered a very important question about soup, "Can soup grow volume/mix after COVID and inflation?" and it did, up nearly 2%.

Slide 12: $1B Sauces Portfolio building momentum

Turning to Italian Sauces, slide 12 highlights our two market leading brands at the forefront of our $1 billion dollar sauces portfolio, Rao's and Prego. I could not be happier with the continued strong growth of Rao's with in-market consumption in the high teens range. Rao's complements the steady performance of *Prego* which was up 2% in-market. This combination of brands that address different occasions and price points gives us a fantastic ability to grow overall share by meeting multiple consumer needs.

Slide 13: Rao's sauce growth continues; Strong runway still ahead

We will provide more details on our expectations for Rao's at our investor day, but we remain very confident in our previously stated on-going growth rate of mid-single digits, with a high single digit growth expectation for Fiscal 25. The team on Sovos has done an excellent job during the integration, not only maintaining the business but advancing the growth and strategy across the portfolio.

Slide 13 outlines a few reasons why we are confident in the continued growth of Rao's. Despite ranking as the number one Italian sauce brand in terms of dollar share, Rao's has about 50% of the household penetration and 60% of the SKU assortment of Prego. There is also a significant opportunity to continue to build brand awareness as the team readies new marketing and innovation for Fiscal 2025.

Additionally, the brand is growing share across all economic demographics and is thriving amongst millennial consumers. In fact, Rao's is growing with millennials at a rate 2.8x faster than the category. We are thrilled to see younger consumers embrace this ultra distinctive brand and believe this provides a strong foundation for us to build Rao's into a household staple in the future.

Slide 14: Improving performance from other key Meals & Beverages brands in growing categories

Finally, on slide 14, just to remind everyone that our Meals & Beverages division also includes brands like Pace, Pacific and V8 Energy, all of which represent great opportunities for additional growth as leading brands in their respective, advantaged categories or segments.

Slide 15: Snacks

Turning to our Snacks business on Slide 15. Despite the 3% decline for the quarter, we saw many encouraging indicators. We were pleased to see continued improvement in vol/mix as well as in market results compared to Q3. We did see some competitive pressure in salty snacks that we are addressing with targeted plans in place in Q1. It is important to note, much of that share pressure is not a result of pricing or promotional activity, but rather new entrants into our elevated segments like Kettle potato chips, or organic/Better-for-You tortilla chips.

Although we continue to see some investment in promotion going forward, we expect levels to remain competitive and disciplined. It is important to remember that although managing price gaps is important, growing our elevated snacks brands will be more influenced by the impact of our innovation and marketing efforts. Those plans are particularly robust for fiscal 2025, giving us even more confidence.

Slide 16: Snacks Q4 $ Consumption sequentially improved versus Q3; Net sales lower due to Partner & Contract brands

On slide 16, I would like to quickly provide some additional color on the bridge between the in-market 1% decline and our overall 3% decline in organic net sales. There were 2 key drivers. First, as we expected, there was approximately a 1% reduction driven by partner and contract brands which I will explain a bit more about in a moment. Second, we cycled about a point of favorable trade phasing in Q4 of Fiscal 23 that created some additional pressure on pricing in the quarter. This is a one-time dynamic that we do not expect to repeat in fiscal 2025.

Slide 17: Partner/Contract brands serve a clear purpose of scale; reductions reflect strategic choices to improve mix

Let me go a bit deeper now on the partner and contract brands headwind. As you will likely recall, we have discussed the role of these Partner and Contract brands in the past. Partner brands are brands Campbell's does not own that we agree to sell through IDPs to improve the scale of their routes. Contract brands are products that Campbell's manufactures to support the scale of our manufacturing plants and are shipped to another company or customer.

Although these businesses play an important role, on average they have approximately 50% lower variable contribution margin than our power brands and also in many cases support competitor's products. So, as we grow our power brands and optimize our DSD and manufacturing network, our reliance on these businesses has gone down. Although there is a topline headwind in the near term, it is clearly the right strategic decision to focus more on our own brands and improve the mix of our business. We expect this trend to continue in Fiscal 25, but as you can see we have been working this number down and reduced it by more than a half. We will provide a bit more detail on our destination for these businesses during Investor Day.

In addition to the right sizing of partner and contract brands, and with a similar objective, we recently announced the sale of our Pop Secret business. Although a very strong brand in the microwave popcorn segment, we do not see the brand or the category as a core focus area for our snack business. While there will be a modest impact to net sales and EPS this year, we are confident that as we continue to refine our snacks portfolio, the continued focus will be a further enabler to faster and more profitable growth.

Slide 18: Health of power brands remain strong, despite some shorter-term pressure

As I mentioned earlier, we did experience some competitive pressure on our power brands in Q4, resulting in dollar consumption that was flat compared to the prior year. On a two-year basis, our Power brands did grow 9.5%. Moreover, we continued to see meaningful progress in the quarter on key brands like *Goldfish* which continued to drive in-market growth. We believe strongly in the accelerated growth of these brands within our snacks portfolio and are responding to the near-term pressure by delivering strong innovation, increasing our marketing efforts and investing at sustainable and disciplined levels, as we continue to make strides towards our long-term goals for the category.

Slide 19: Consistent progress on Snacks margin journey over the last two years

Another important focus area for fiscal 24 was delivering Snacks margin improvement, and I am pleased that despite the volatile environment, we were able to reach approximately 15% operating margin for the full year. This finish reflects 170bps of expansion over the last two years. We remain extremely confident in our savings and productivity roadmaps for Snacks, but we will always ensure that we are appropriately supporting our brands given our priority of growth.

As you will hear from Carrie in a moment, we are being measured in our fiscal 25 guidance for snacks margin improvement until we fully cycle the consumer and category recoveries. To that end, although we do expect margin progress in fiscal 25 on Snacks, we are targeting approximately 50 basis points of year-over-year improvement. Again, all savings initiatives remain on track and this moderation from our originally planned 100 basis points increase simply reflects the acceleration of planned marketing investment into this year reflecting the competitive environment and a near-term moderate margin headwind from the Pop Secret divestiture. We remain confident in our stated longer-term goal of 17% margins for Snacks. We will talk more about that path during Investor Day.

Slide 20: Wrap up
In summary, our fourth quarter performance was a solid close to fiscal 24 with steady progress across the business and against our strategic plan. We saw stabilizing trends in growth and volumes, compelling earnings with margin improvement and continued progress integrating Sovos Brands.

I'd like to thank the entire Campbell's team for their hard work and commitment in finding ways to deliver in an ever-evolving consumer environment. I recognize that we are not fully through the consumer recovery yet, but I can clearly see the light at the end of the tunnel. This paired with the tremendous progress we have made in transforming Campbell's business is setting up what I believe will be a very exciting next chapter in our storied history. We look forward to laying out that chapter at our upcoming Investor Day on September 10th in New York.

With that, let me turn it over to Carrie.

Carrie Anderson, Chief Financial Officer

Slide 21: Carrie Anderson Headshot
Thanks Mark, and good morning, everyone.

Slide 22: Q4 FY24 Key Financial Results
I'll begin with an overview of our fourth quarter including continued strong performance from the Sovos Brands acquisition.

Fourth quarter reported net sales were up 11% driven by the contribution from Sovos. Organic net sales, excluding the impact of acquisitions, divestitures, and currency, decreased 1% compared to the prior year to $2 billion. Importantly, as Mark mentioned earlier, we continued to show sequential volume improvement, moving into positive territory.

Similar to third quarter, both adjusted EBIT and adjusted earnings per share increased double digits in Q4 with expansion in both adjusted gross margin and adjusted EBIT margin.

Adjusted EBIT increased 36% primarily due to higher adjusted gross profit from the contribution of Sovos and base business performance.

Adjusted EPS increased 26% to $0.63, with the impact of the acquisition approximately neutral in the quarter, which as Mark mentioned, continued to exceed our expectations.

Slide 23: FY24 Key Financial Results
Turning to slide 23, on a full-year basis, Net Sales were up 3%, including four and a half months of sales contribution from the Sovos acquisition. Organic net sales decreased 1% compared to the prior year with unfavorable volume and mix partially offset by the benefit of net price realization. Our organic full year net sales result was in line with the low end of our guidance range, and we have now delivered two consecutive quarters of stable or growing year-over-year volume and mix.

Full year adjusted EBIT increased 6%, driven by higher adjusted gross profit from the contribution of the acquisition and base business performance. Adjusted EBIT margin improved 50 basis points, driven primarily by an increase in adjusted gross margin.

Full year adjusted EPS increased 3% to $3.08, with the impact of the acquisition approximately neutral during the fiscal year.

Slide 24: Q4 FY24 Net Sales Bridge

Moving to slide 24, organic net sales declined slightly in the quarter, as sequential improvement in volume and mix was more than offset by unfavorable net pricing. We did see volumes turn positive in the quarter within our Meals & Beverages division and neutral volumes in Snacks; and both divisions saw volume improvement in the quarter compared to Q3. Looking ahead, we expect volume trends to continue to modestly improve as we move through fiscal 25.

During the quarter, Sovos Brands added 12 percentage points to reported net sales growth, which exceeded our expectations.

Slide 25: Q4 FY24 Adjusted Gross Profit Margin Bridge

On slide 25, fourth quarter adjusted gross profit margin expanded 80 basis points to 31.4%, consistent with Q3 margins and in line with our expectations. Drivers of margin expansion included supply chain productivity, lower other supply chain costs and favorable mix. These contributors more than offset unfavorable net price realization, moderate cost inflation and the impact of the Sovos Brands acquisition, which has a lower margin profile than the base business.

Core inflation in the quarter remained in the low-single digit range, consistent with rates we experienced throughout the year, and much lower than the 12% we reported for full year fiscal 23. We anticipate core inflation to remain in the low single digit range for fiscal 25 and we remain focused in areas of the portfolio where we still see higher year-over-year input costs, including olive oil, cocoa, and packaging costs, and other areas of persistent inflation, such as labor costs and warehousing costs.

In fiscal 24, we delivered $60 million of enterprise cost savings, reaching a cumulative $950 million of our $1 billion multi-year cost savings program. For the full year, our total productivity initiatives and cost savings programs more than offset the impact of inflation.

Slide 26: Other Operating Items

Turning to slide 26, Q4 other operating items include adjusted marketing and selling expenses which decreased 4% to $187 million. The decrease was primarily driven by lower advertising and consumer expenses in the base business, as we lapped significant spending in the prior year. Reductions in advertising and customer expenses on the base business were partially offset by the impact of the Sovos Brands acquisition.

Fourth quarter adjusted administrative expenses modestly increased 1%, to $165 million. The added adjusted administrative costs from the acquisition were partially mitigated by lower incentive compensation costs and approximately $7 million in cost synergy realization in the quarter from our Sovos integration plan. This brings our total Sovos integration synergy capture to $10 million for fiscal 24.

Slide 27: Q4 FY24 Adjusted EBIT Bridge

As shown on slide 27, fourth quarter adjusted EBIT increased 36% and adjusted EBIT margin increased 260 basis points to 14.3%. This was primarily due to higher adjusted gross profit from the contribution of the acquisition and base business performance. Lower adjusted marketing and selling expenses were offset by the modest increase in adjusted administrative and R&D costs, and an increase in adjusted other expenses, which were driven by higher amortization of intangible assets related to the acquisition, and lower pension and postretirement benefit income.

Slide 28: Q4 FY24 Adjusted EPS Bridge

On slide 28, adjusted EPS increased double digits to $0.63, primarily reflecting higher adjusted EBIT, partially offset by higher net interest expense related to higher levels of debt to fund the acquisition. As we mentioned earlier, the acquisition was approximately neutral to adjusted EPS in Q4 and to the full year.

Slide 29: Q4 FY24 Meals & Beverages Results

In Meals & Beverages, fourth-quarter net sales increased 28% driven by the contribution of the Sovos Brands acquisition. Pro forma Q4 net sales growth for the division, as if we had owned Sovos for all of Q4 fiscal 23, would have been approximately 4%, driven by the respective pro forma Q4 growth of Sovos of 14%.

Organic net sales increased 1%, driven by gains in U.S. Soup, foodservice and Prego pasta sauces, partially offset by declines in beverages. It was great to see year-over-year volume trends turn positive in the quarter for Meals & Beverages, with favorable volume and mix of 2%, partially offset by lower net price realization of 1%.

In U.S. soup, net sales increased 2% primarily due to an increase in broth, partially offset by decreases in ready-to-serve and condensed soups.

Additionally, fourth quarter operating earnings increased 60%, primarily driven by the contribution of the Sovos Brands acquisition, and higher gross profit in the base business. We were pleased with the Q4 Meals & Beverages operating margin of 17.6%, which improved 350 basis points as compared to the prior year, more than absorbing the impact of the recent acquisition, which, as I mentioned earlier, has a lower margin profile than the base business. For the full year, Meals & Beverages operating margins improved 30 basis points to 18.5%.

Slide 30: Q4 FY24 Snacks Results

Fourth-quarter organic net sales in Snacks decreased 3%. Volume and mix trends sequentially improved to flat in the quarter with roughly 1% growth in Power brands and 1% reduction in Partner brands. In addition, we saw slightly more than a 2% unfavorable net price realization, of which approximately half was a planned increase in net pricing investment, and the balance reflecting the lapping of favorable trade phasing in Q4 of fiscal 23.

Fourth quarter operating margin for Snacks increased 50 basis points to 14.5% and full year margin improved 40 basis points to end the year at 14.8%, generally aligned with our goal of reaching approximately 15% margins for the year as we navigated the on-going consumer recovery. We remain on track with our network and route-to-market initiatives as part of our margin roadmap, though as we think about Fiscal 25, we will be a bit more conservative with a margin expectation modestly above 15% as volume trends continue to normalize and we absorb the near-term impact of the Pop Secret divestiture. This will give us some flexibility to remain competitive while supporting our brands and innovation launches this coming year, while staying focused on our long-term margin goal of 17%.

Slide 31: Disciplined Capital Allocation

Turning to slide 31, we generated strong cash flow from operations of nearly $1.2 billion in fiscal year 24. This result represented a 4% increase compared to the prior year, despite incurring one-time cash costs associated with the acquisition.

Fiscal 24 capital expenditures were $517 million as we continue to prioritize key growth and capability building investments, including capital requirements related to Sovos Brands. We also remain committed to returning cash to our shareholders, with $445 million of dividends paid and $67 million in anti-dilutive share repurchases during the fiscal year.

Our net debt to adjusted EBITDA leverage at the end of the fourth quarter was 3.7 times, as expected. We remain committed to investment grade ratings and our goal to return to our 3 times net leverage target by the end of year 3 post-close.

At the end of the Q4, we had approximately $108 million in cash and cash equivalents and ample liquidity under our revolving credit facility.

Slide 32: FY25 Guidance

Turning to slide 32. Our full-year fiscal 25 guidance reflects a balance between sequential progress, while also reflecting a reasonable range as we continue to navigate the on-going consumer recovery.

As a reminder, we completed the sale of our Pop Secret business earlier this week. The divestiture is estimated to reduce net sales by approximately 1 percentage point and have a 4 cent earnings per share dilutive impact in fiscal 25, which is reflected in our full year guidance.

Fiscal 25 comprises 53 weeks, one additional week compared to Fiscal 24. The benefit of the 53rd week is included in our Fiscal 25 guidance and it is estimated to be worth approximately 2 points of net sales and adjusted EBIT growth, and approximately 6 cents of adjusted EPS.

Full year reported net sales are expected to increase approximately 9 to 11%, which reflects a full twelve months of net sales contribution from Sovos Brands and the loss of eleven months of net sales from the divestiture of Pop Secret.

As a reminder, Sovos moves into our organic growth calculation starting March 12th, 2025. We expect Sovos Brands Fiscal 25 pro forma net sales growth, as if we owned Sovos for all of Fiscal 24, to be in the high-single digit range, following a year of double-digit growth. Rao's will lap its more significant distribution gains beginning in January. Moving forward, we still expect long-term Sovos Brands net sales growth to be in the mid-single digit range.

Full-year organic net sales growth is expected in a range of approximately flat to up 2%, reflecting the variability in the pace of consumer recovery.

Our organic net sales growth expectations reflect modest positive volume and mix for the year. In terms of phasing, we expect Q1 organic net sales growth to be relatively flat, a modest improvement from Q4, and for the balance of the year, we expect sequential improvement in the consumer environment. Importantly, for the second half, although we expect healthier category trends; we will be cycling the broth net sales benefit in Fiscal 24 that was the result of private label supply constraints.

We expect adjusted EBIT growth of 9 to 11%, including the operating income contribution of Sovos Brands and the impact of the divestiture of Pop Secret.

As a reminder, the adjusted EBIT contribution of Sovos in our guidance includes stock-based compensation expense and acquisition-related depreciation and amortization expense, whereas historically when Sovos was a standalone company, these costs were not included in their adjusted results. Fiscal 25 transaction-related depreciation and amortization expense is expected to be approximately $18 million, in line with our original expectations.

We expect full year core inflation in the low-single digit range, consistent with Fiscal 24. We also expect productivity improvements of approximately 3% and enterprise cost savings of approximately $70 million, inclusive of $10 million in cost synergies related to the integration of Sovos. Of the $70 million, roughly one-third will benefit gross profit and two-thirds to be realized in the marketing, selling and general and administrative expense categories.

Additionally, in line with our continued commitment to brand investments, we expect adjusted marketing and selling expense as a percent of net sales to return to our targeted range of 9-10%. For Q1, we expect an increase in marketing and selling spend as compared to Q1 fiscal 24, with the addition of Sovos Brands expenses, as well as other targeted brand investments in the base business.

Total company adjusted EBIT margin is expected to be similar to Fiscal 24, with a modest improvement in adjusted gross margin, offset with the impact of the acquisition as it moves into our base for a full twelve months, as well as the normalization of incentive compensation, and higher levels of marketing & selling costs for the base business. As mentioned earlier, Snacks operating margin is expected to be modestly above Fiscal 24. Meals & Beverages operating margin is expected to be modestly lower, reflecting the mix impact of Sovos, partially offset by a modest margin improvement in the base business.

Adjusted earnings per share is expected to increase 1 to 4% and be in a range of $3.12 to $3.22, including the $0.04 impact of the divestiture of Pop Secret. We expect Sovos to be approximately neutral to adjusted EPS in Fiscal 25. To provide a bit more clarity about the phasing of the year, in Q1, we would expect adjusted EPS to be in the mid to high 80 cent range, reflecting modest dilution impacts from the Sovos acquisition and Pop Secret divestiture, as well as brand investments within our targeted 9-10% range.

Full year adjusted net interest expense is expected to be between $350 million and $355 million. Net interest expense is higher than Fiscal 24 reflecting a full year of incremental debt related to the acquisition and higher expected interest expense associated with the refinancing of our March 2025 bond maturities, with expected debt issuance timing driven by market conditions.

As I wrap up guidance, capital expenditures are expected to be approximately 5% of net sales. Our priorities for fiscal 2025 include key networking optimization initiatives across both divisions, capital related to the integration of Sovos, including IT investments, and completing our growth capacity investments in our Snacks division for Goldfish and Kettle brand chips. We see great opportunity to reinvest into the business in support of growth and improved profitability. This remains very much aligned with our long-term algorithm and capital allocation priorities that we'll talk more about at our upcoming Investor Day.

Slide 33: Delivered on Our Commitments with Q4 Results; FY25 Guidance Introduced
To wrap up, we were pleased with our fourth quarter results, delivering double-digit growth in both adjusted EBIT and EPS, and margin expansion. As we head into Fiscal 25, we remain encouraged by the continued expectation for improving volume trends in the business and sustaining the momentum following our first full quarter with Sovos Brands in our results.

With that, let me turn it over to the operator to begin Q&A.