

## Campbell Soup Co. (Q2 2020 Earnings)

March 4, 2020

### Corporate Speakers:

- Kenneth Gosnell; Campbell Soup Company; VP of Finance Strategy & IR
- Mark Clouse; Campbell Soup Company; President, CEO, President of Campbell Snacks & Director
- Mick Beekhuizen; Campbell Soup Company; Executive VP & CFO

### Participants:

- Andrew Lazar; Barclays Bank PLC; MD & Senior Research Analyst
- Kenneth Goldman; JP Morgan Chase & Co; Senior Analyst
- Bryan Spillane; BofA Merrill Lynch; MD of Equity Research
- Nik Modi; RBC Capital Markets; MD of Tobacco, Household Products and Beverages & Lead Consumer Staples Analyst
- Jason English; Goldman Sachs Group Inc.; VP
- Christopher Growe; Stifel, Nicolaus & Company, Incorporated; MD & Analyst

## PRESENTATION

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the Campbell Soup Second Quarter 2020 Earnings 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, Mr. Ken Gosnell, Vice President, Finance, Strategy, Investor Relations. Sir, you may begin.

Kenneth Gosnell: Thank you. Good morning, everyone. Welcome to Campbell's Second Quarter 2020 Earnings Call.

As usual, we've created slides to accompany our earnings presentation. You will find these slides posted on our website this morning at [investor.campbellsoupcompany.com](http://investor.campbellsoupcompany.com). This call is open to the media, who'll participate in a listen-only mode.

Turning to Slide 3. 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 can see what we plan to cover today. With us on the call today are Mark Clouse, Campbell's President and CEO; and Mick Beekhuizen, Chief Financial Officer. Mark will share his thoughts on our performance in the quarter, and then Mick will walk through the financial details and our updated guidance for fiscal 2020.

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

Mark Clouse: Thanks, Ken. Good morning, everyone. Thanks for joining us on the call.

I guess, last quarter, I was a bit premature in saying goodbye to Ken. Looks like he'll be with us one more time. Seriously, though, thank you, Ken, for your contributions to the company and for bridging us to your replacement.

As you may have seen, we announced that Rebecca Gardy will be joining Campbell as VP of Investor Relations on March 30. Rebecca and Ken will work together to ensure we have a smooth transition.

Our results in the quarter were again in line or above our expectations, and we continued to successfully execute our plans to stabilize the company by investing in the business, optimizing our portfolio, efficiently implementing our operating model and successful deleveraging of our balance sheet.

In fact, in the quarter, we used the net proceeds from the divestitures, along with positive cash flows to reduce our net debt to 3.5x adjusted EBITDA. Overall, I am encouraged by our progress and how we are building a track record of improved execution. But I also recognize that we have more to do to deliver sustainable growth and performance across both of our businesses.

Turning to Slide 6. This quarter, we delivered growth across all key metrics, including organic sales, adjusted gross margin, EBIT and earnings. Looking at our specific results for Q2, organic net sales increased 1%, reflecting continued strength in snacks, where organic net sales increased 2% and improved performance in meals and beverages, where organic net sales were comparable to a year ago. Importantly, soup performance improved meaningfully from the first quarter as solid holiday results, along with some timing from Thanksgiving, resulted in about a 1% growth rate for Q2.

Our in-market performance maintained its momentum from the first quarter, with solid results across both divisions. In measured channels, our total company in-market consumption increased 1% in the quarter, consistent with our first quarter performance. This included a headwind from a year ago shift in timing of SNAP payments at the end of January.

In addition, our brands grew or held share in categories representing approximately 80% of our total business and in 10 of our 13 stated priority categories. This includes share

gains in U.S. soup for the second consecutive quarter, reflecting sustained progress of our win in soup plan.

We also continued to deliver against other key elements of our strategic plan, including a 150-basis-point adjusted gross margin expansion, supported by productivity improvements and cost savings. We wrapped up cost savings of another \$45 million in the quarter, inclusive of our multiyear enterprise program and the synergies from our snacks integration.

Adjusted EBIT performance came in stronger than expected despite a significant increase in marketing spending as gross margin gains more than offset these planned investments. This, along with our lower adjusted interest expenses resulted in another quarter of double-digit adjusted EPS growth.

As you saw this morning, we raised adjusted EPS guidance for the year. The improved outlook is being driven by the lower adjusted interest expense following our successful deleveraging in the quarter and adjusted EBIT momentum through the first half, which was better than we anticipated. We expect these benefits to be partially mitigated as we plan to increase some strategic investments in the business to drive continued momentum in the back half of the year.

We'll start our segment discussion with Meals and Beverages on Slide 7. I'm pleased with the progress we're making in the division and the sequential improvement in sales performance. In the second quarter, net sales were comparable to the prior year. This performance reflected the impact of improved retailer relationships, investments in our core brands and overall stepped up execution on the business.

While we're certainly not all the way to bright, the business is responding favorably to the actions we have taken to optimize the portfolio and our increased investments to improve the quality of our food and building equity in our brands.

In fact, in Q2, we increased our level of marketing investment versus prior year, with A&C up 20%. The majority of this spending was targeted against the soup portfolio, where consumer response has been very encouraging. Let's go a little deeper now on soup on Slide 8.

After a little over a year in the role, I continue to believe in the potential of the category, and I'm even more confident in our brand's ability to lead. As expected, our net sales profile improved in the quarter, with sales of our U.S. retail soup portfolio up 1%, behind strong performance in condensed and broth, including Pacific, which was partly offset by planned declines in ready-to-serve and the continued headwind from TDP declines. Helping this number was also the shift of some thanksgiving shipments.

Our net sales slightly outpaced our end market results, which were comparable to prior year. Underlying that end market result, we continue to see strong indicators on several measures related to the improving health of our soup brands and much better execution in

the key holiday period. For instance, we grew share for the second consecutive quarter, with gains in condensed and broth.

Another important metric that we are particularly excited about is household penetration, which increased versus the prior year, driven by our condensed portfolio. Not only are we attracting new households, we are attracting younger households, which bodes well for the future.

In particular, on tomato soup, a good percentage of the gains came from millennial households. Frankly, this is a trend that many believed was not possible. Of course, there were puts and takes across the portfolio and not everything worked perfectly. So let's break it down.

Starting with condensed, you can see our enthusiasm for our return on investment, especially with our icon SKUs: tomato; chicken noodle; cream of mushroom; and cream of chicken, where we continued the turnaround. Consumers responded favorably to our messaging and quality improvements. As a result, we saw improved lifts in the business across both eating and cooking varieties.

Given the importance of the business, this was a key pillar in our strategy and was the single biggest priority going into the season. Although we did benefit from some competitive supply challenges in the marketplace, we also were lapping some benefits from winter storms and the previously mentioned SNAP timing from a year ago. The net of this is that, overall, we are very encouraged by our progress on this very important part of our soup business.

Next, we were very encouraged that the Pacific Foods soup portfolio returned to growth in this past quarter. We regained distribution with key customers, which contributed to the strong sales growth in the quarter. We see an opportunity to further grow Pacific Foods soup portfolio as we continue to further integrate the business, increase capacity and step up our equity building and innovation efforts around this highly relevant brand.

Next, while the Swanson broth business had a solid performance in the quarter, share was just marginally better, reflecting the continued need to sharpen our plans to ensure price gaps and quality differentiation are in place. We have good learnings coming out of the holiday, and we'll be making further refinements as we go into Easter.

Finally, our ready-to-serve portfolio mitigated much of the other segment's growth as planned. We expected ready-to-serve to decline this quarter as our plans called for reductions in the depth of our trade events around Chunky and the continued impact of the distribution losses in the segment.

While we maintain support and have seen more recent trends improve. These actions negatively impacted volume and share in the quarter. While painful, this was the right decision for the long-term health of the brand. I anticipate that in fiscal '21, we'll get back

to playing full offense on all of our RTS brands based on the steps we've taken this year to fix the foundation.

Not just on RTS, but an overall headwind continued to be driven by the pressure on distribution. As stated last quarter, about 20% of our TDP declines have been regrettable. The team has been making great progress in 2 areas to help address this: one, making the case for recovering lost core SKUs as the retailers reset their shelf later this year; and, two, protecting overall shelf space by adding phasings of our core SKUs. This is helping, as you see the TDP declines moderating and shelf space has been improving.

Finally, as previously discussed, we made proactive decisions to optimize certain lower-profit Foodservice volume. The balance of the remaining Foodservice soup business posted a solid gain in the quarter. Led by restaurants and hospitals, with sales up 10%. As we cycle these decisions and think about the future, we'll be in a much better position to see Foodservice contributing positively to our overall win in soup plans.

In summary, as we head out of the heart of the soup season, we feel good about our progress and the fundamentals of the business. We showed marked improvement and executed well in what was the most important quarter for soup. We also continued to create confidence in the category with our important retail partners. I know you've heard me say this before, but it does bear repeating. The change on soup won't happen overnight, steady, sustainable improvement is the name of the game.

In other parts of the division, on Slide 10, we continued to see strong growth from our Prego pasta sauce brand. It grew share again and maintained its #1 position in the category for a third straight quarter. This is really strong performance in a very relevant and healthy category.

Turning to V8. The shelf-stable juice category remains challenged. For us, it's really a tale of 2 cities, with the main bright spots being our V8 + Energy and our multi-pack single-serve business, which continued to be offset by the declines in the Splash and Fusion varieties. This is consistent with our strategy of actively reshaping the portfolio around the plant-based positioning of V8 Red, the V8 + product platform and single-serve. It will take time, but as the portfolio changes occur, we will be much better positioned for the future.

Let's next look at our Snacks segment on Slide 11. This was another very good quarter for the business with organic net sales increasing 2% and operating profit up 3%. I'm pleased to see sustained momentum behind our proven growth model. The sales growth is partly offset by the 1% headwind from partner brands, which we spoke about earlier in the year and will continue throughout fiscal '20.

Once again, 8 of our 9 power snack brands grew or held share in the quarter. In fact, these brands grew 4% for the quarter, demonstrating their continued strength and differentiation in the market. Let's dig a bit deeper to see what's behind the healthy growth of these brands.

First, our marketing investment in the power brands continued to be strong. We maintained an increased marketing investment with A&C up 20% versus prior year. And these investments continued to pay off. The power brands grew at 3x versus the rest of the portfolio. Additionally, it's resulting in increased household penetration for 7 of the 9 brands, another indicator of sustained growth. The Pepperidge Farm portfolio specifically delivered its 21st consecutive quarter of organic growth. Goldfish performed well with increases on the core.

We're coming up now on the 3-year anniversary of the launch of our newest snacks brand, Farmhouse. This brand continues its growth trend with strong performance in bread and cookies. However, overall, our fresh bakery business did decline in the quarter after a fairly strong stretch of great performance. We experienced some softness in certain segments, particularly in breakfast and healthier grain-based bread.

We know where and what is driving the softness, and we have plans in place to help improve trends, but expect to deal with headwinds in this business for the balance of the year. Marketplace performance was also strong on our other snacks brands where we drove double-digit gains on late July with Cape Cod, Kettle and Lance continuing to respond positively to our increased marketing investments, leading to both consumption and share growth.

With respect to our Snacks innovation, I'm pleased with the early progress we are seeing on our new products and look forward to sharing more details in the quarters ahead.

Let's finish our discussion of Snacks with a review of our progress against integration and value capture on Slide 13. The headline here is that we are very much on plan. I continue to be pleased with the consistent progress of the integration. Much like in Q1, we delivered synergies in procurement around packaging, continued to realize savings from last year's consolidation of sales headquarters and related operations and benefits from increased operational efficiency in manufacturing through the build-out of new mixing centers.

We also recently have taken actions to improve the effectiveness of the Snacks organization by simplifying and streamlining our operations. Looking ahead, we expect these recent actions, along with other initiatives around manufacturing and logistics, to begin to deliver savings in Q3.

As you may have seen, we appointed Valerie Oswalt as the new President of the Snacks division on Monday. I am confident that Val is the right leader and a strong cultural fit for our Snacks business due to our 2 decades of experience in snacks and her track record of leading people and delivering results. She brings a diverse background of cross-functional expertise and experience across large organizations, such as Kraft Foods and Mondelez and also entrepreneurial start-ups. I've had the pleasure of working with Val for many years and could not be more excited to have her join the team and accelerate the growth of this business.

With that, let me turn the call over to Mick for a deeper dive on our financial results and segment performance.

Mick Beekhuizen: Thanks, Mark. Before reviewing our results, I want to give you my perspective on the quarter and outlook for the balance of the year. As Mark stated, organic net sales, which excludes the negative impact from the divestiture of the European chips business increased 1% from the prior year and were in line with our expectations. Net sales for Meals and Beverages were flat for the quarter, which is an improved trend from Q1 as we continue to invest.

In snacks, we continue to focus on the integration of Snyder's-Lance, while we delivered top line organic growth of 2%, driven by gains across all 9 of our power brands. We are pleased with the improving trends of our adjusted gross margin as we benefited primarily from productivity improvements, cost savings and favorable product mix, partially offset by moderating cost inflation, with net price realization essentially neutral as the benefit of pricing actions was offset by trade investments.

We continue to make strong progress against our cost savings target of \$850 million by the end of fiscal 2022, delivering \$45 million of incremental savings in the second quarter, bringing the program to date total for continuing operations to \$650 million. Taking into account the top line growth, gross margin improvement and delivery on our cost savings programs, combined with continued investment in our brands, our adjusted EBIT increased year-over-year by 4% in the quarter.

During the second quarter, we completed our divestiture plans as we closed on the divestiture of the remaining portion of Campbell International in December. Proceeds from the divestitures, along with positive cash flow from the business have enabled us to reduce net debt levels from continuing operations by approximately \$3.3 billion over the past 12 months.

Lastly, we are updating our fiscal 2020 adjusted EPS guidance based on favorable adjusted net interest expense largely driven by the successful debt reduction and slightly better-than-expected year-to-date adjusted EBIT, partially offset by some incremental investment opportunities in the second half of the year, consistent with our overall strategy. Our underlying outlook for reported and organic net sales as well as adjusted EBIT remains unchanged. Overall, we had a solid quarter and are currently on track to achieve our fiscal year goals. I'll now review our results in more detail.

For the second quarter, reported net sales were flat, while organic net sales increased 1% to approximately \$2.2 billion, driven by gains in snacks. Adjusted EBIT increased 4% to \$364 million as improved gross margin performance was offset partially by increased marketing investments. Adjusted EPS from continuing operations increased by 11% or \$0.07 to \$0.72 per share, due primarily to our lower adjusted net interest expense and adjusted EBIT performance.

For the half, reported net sales declined 1%, while organic net sales were comparable to the prior year. Adjusted EBIT increased 5% to \$756 million, reflecting benefits of cost-saving initiatives, supply chain productivity improvements and favorable product mix, offset partially by cost inflation and increased marketing investment. Adjusted EPS from continuing operations increased by 11% or \$0.15 to \$1.51 per share, due primarily to our adjusted EBIT performance and lower adjusted net interest expense.

Breaking down our net sales performance for the quarter, organic net sales were up 1%. Overall volumes increased driven by Snacks with gains across much of the portfolio, driving a 1-point benefit. Sales also benefited by 1 point from pricing actions, primarily within Meals and Beverages, although this benefit was mostly offset by promotional spending investments also within Meals and Beverages.

The impact from currency translation in the quarter was neutral. As we have refocused our portfolio on North America, we would continue to expect currency translation impacts to be minimal. The divestiture of the European chips business negatively impacted net sales by almost 1.5 points in the quarter and rounding to 1 point on this bridge. All in, our reported net sales were comparable to the prior year.

Our adjusted gross margin percentage increased by 150 basis points in the quarter to 34.4%. Product mix improved our adjusted gross margin performance by 70 basis points, driven primarily by the Snacks portfolio, which is benefiting from strong performance of our power brands as well as the favorable impact from sale of the European chips business and the impact from the prioritization of select partner brands.

Net pricing led to a 10 basis points increase in adjusted gross margin as the benefit from list pricing actions from a year ago, primarily in Meals and Beverage, slightly outpaced an increase in promotional spending. We will start to lap the benefit of these pricing actions as we move into our third quarter.

Cost inflation and other factors had a negative impact of 160 basis points. On a rate basis, overall input prices increased by approximately 2%. This was mostly offset by our ongoing supply chain productivity program, which contributed 140 basis points. This program includes, among others, initiatives around logistics optimization, ingredient sourcing and planned asset utilization.

And our cost savings program, which is incremental to our ongoing supply chain productivity program added 90 basis points to our gross margin expansion. This program includes the benefits of various initiatives, such as the integration of Snyder's-Lance; simplifying and streamlining our organization; and last year's closure of our manufacturing facility in Toronto, Ontario.

All in, our adjusted gross margin percentage for the quarter was 34.4%. We are pleased with these gross margin results as we continued to achieve improvements in performance.



Moving on to other operating items. Adjusted marketing and selling expenses increased 7% in the quarter to \$235 million. This increase was driven primarily by our planned increased investment in advertising and consumer promotion expenses, which is up 17% versus a year ago and largely driven by support of our Meals and Beverages business. Adjusted administrative expenses decreased 1% to \$135 million, primarily reflecting the benefits of cost-saving initiatives.

Going to the next slide, we have continued to successfully deliver against our multiyear enterprise cost savings program. This quarter, we achieved \$45 million in savings, inclusive of Snyder's-Lance synergies. To date, that brings our savings for the overall program to \$650 million. We expect incremental cost savings of approximately \$150 million for the full year and continue to track to our cumulative savings target of \$850 million by the end of fiscal 2022.

For additional perspective on our performance, the next chart breaks down our adjusted EPS change between our operating performance and below the line items. Adjusted EPS increased \$0.07 from \$0.65 in the prior year to \$0.72 per share. Adjusted EBIT had a positive \$0.04 impact on EPS. Adjusted net interest expense declined year-over-year by \$20 million, delivering a \$0.05 positive impact to EPS as we have used proceeds from completed divestitures and our strong cash flow to reduce debt.

Our adjusted effective tax rate of 24.9% was slightly higher than the prior year rate of 24%, leading to a \$0.01 negative impact to EPS. And lastly, our higher diluted share count also had a negative \$0.01 impact to EPS, completing the bridge to \$0.72 per share.

Now turning to our segment results. In Meals and Beverages, organic net sales remained flat at \$1.2 billion, reflecting gains in Prego pasta sauces and U.S. soups, partially offset by declines in beverages. Net sales of U.S. soups increased 1% compared to the prior year, with gains in condensed soups and broth, offset partially by declines in ready-to-serve soups.

Segment operating earnings declined 4% to \$242 million. The decline was driven primarily by increased marketing investments and reinvestment back into capabilities, offset partially by improved gross margin performance.

In Snacks, organic net sales increased 2% to just under \$1 billion, driven primarily by gains in Goldfish crackers and Pepperidge Farm cookies as well as gains in Kettle brand and Cape Cod Potato Chips, offset partially by declines in fresh bakery products and the partner brands within the Snyder's-Lance portfolio as we continue our planned prioritization of select partners to reduce complexity and improve execution.

Segment operating earnings increased 3% to \$136 million. The increase was primarily due to improved gross margin performance, offset partially by increased marketing investments. Cash flow from operations through the first half of fiscal 2020 decreased year-over-year by \$183 million to \$663 million, primarily driven by changes in accrued liabilities, principally due to higher incentive compensation from fiscal 2019 performance

payouts, while lapping lower payouts in the prior year from fiscal 2018 and accrued interest.

Additionally, last year's cash flow benefited from significant working capital improvements. And while cash flow for the year will benefit from these efforts again, we expect the impact to be at a lower level of improvement than what we achieved in fiscal 2019.

Cash from investing activities increased by \$2.6 billion to \$2.4 billion, driven by net proceeds from our divested businesses. The cash outlay for capital expenditures was \$167 million, \$31 million lower than the prior year. We continue to forecast CapEx of approximately \$350 million for fiscal 2020.

Cash outflows for financing activities were \$3.2 billion, compared to \$663 million a year ago. The year-over-year incremental cash outflow reflects the use of divestiture proceeds to pay down debt levels. Dividends paid in the amount of \$230 million were comparable to the prior year, reflecting our current quarterly dividend of \$0.35 per share. As stated, we continue to make progress to delever our balance sheet.

As expected, net debt of \$5.8 billion declined by approximately \$3.3 billion compared to the prior year as proceeds from the completed divestitures, along with positive cash flow generated by the business were used to reduce our debt. Our leverage ratio, which represents net debt to trailing 12-month adjusted EBITDA from continuing operations is now at 3.5x.

Now I'll review our updated guidance for continuing operations for 2020. We continue to expect reported and organic net sales of minus 1% to plus 1%, and adjusted EBIT of plus 2% to plus 4%. We are, however, updating our adjusted EPS guidance for our revised outlook for adjusted net interest expense, which is now estimated to be approximately \$270 million.

As a result, we expect adjusted EPS of plus 11% to plus 13% or \$2.55 to \$2.60 per share. And as a reminder, fiscal 2020 is a 53-week year, resulting in an additional week, which we believe to have about a 2 percentage point impact across net sales, adjusted EBIT and EPS. And for clarity, our outlook for organic sales excludes the negative 2-point impact from the sale of the European chips business as well as a 2-point contribution from the 53rd week.

So for those doing the math, excluding the benefits of the 53rd week, we are expecting lower year-over-year adjusted EBIT levels in the second half compared to the first half of our fiscal year, as we lap the pricing benefits from Meals and Beverages, the benefit of cost savings moderate, and we continue to make significant investments back into the business through the balance of the year.

And while we don't provide quarterly guidance, the third quarter will be the most difficult comparison as we will lap the pricing benefit, while still making incremental promotional investments, which we won't lap until the fourth quarter.

Overall, I'm pleased with our results this quarter, and we'll now turn it back over to Mark.

Mark Clouse: Thanks, Mick. Before opening up the call for questions, I wanted to review our progress against the milestones we outlined at our Investor Day. As you know, I believe a candid conversation about this is critical for investors to track our progress. So how did we do in the second quarter? I continue to feel very good about our progress against these key metrics.

While we improved on top line, we have more work to do to make this truly sustainable, but clearly seeing key elements of our business improving is encouraging and, I would say, a step forward from Q1.

We are slightly ahead of schedule on margins and EBIT, which is very positive as it's creating some flexibility to make sure we optimize the investments we need. Our cost savings programs are tracking to plan and we improved our balance sheet in the quarter by significantly reducing debt with the proceeds from the divestitures, resulting in debt levels at 3.5x adjusted EBITDA.

I'm also excited about our progress around building a winning team and culture, especially as it pertains to our new team members, increased focus, execution and accountability of our teams. The overall business is essentially on track with growing positive indicators of the full potential of this portfolio and clear areas where continued focus is still needed. With that, let's take some questions.

Kenneth Gosnell: Thanks, Mark. We'll be happy to take questions. Crystal, let's open the lines and take our first question.

## QUESTIONS AND ANSWERS

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

Andrew Lazar: All the best going forward, Ken.

Kenneth Gosnell: Thank you.

Andrew Lazar: Sure. Mark, now that most of the soup season is behind the company, I'd love to get a better perspective maybe on what some of the key learnings you may have garnered that helped inform Campbell's direction going forward. I guess, particularly given next soup season is one in which you expect Campbell to take a more substantial leap in terms of reframing the soup category and launching some of the more impactful, let's say, platform innovation.

And then while it's early, just as a separate one, I want to get a sense of have you seen any evidence of pantry loading thus far in soup. But really, the more important part of this and why I ask it is, whether you have any research or evidence that shows when product gets back into households that may have moved away from it, that there is some stickiness to that and it can ultimately, maybe, bring new households back into the category, sort of like -- more like a trial sort of process?

Mark Clouse: Yes, great. Yes. Thanks for the question, Andrew.

I think a lot of lessons in the season. And having it be my first time through the soup season, I think the general overarching theme or perspective is that, I would say, positive encouragement that when we do support the businesses, whether that is with marketing and advertising or perhaps even in this year, more importantly, our relationships with our key retailers, that we can move the needle on the business. And I think what's probably most encouraging to me is the focus that we had on the condensed segment.

As you know, it's a significant part of our soup business. It also happens to be a highly profitable portion of our soup business. And probably, I would say, arguably, the one that perhaps most folks had questions about our ability to drive improvement.

And for the quarter, to see consumption up 2.5% and up almost a share point as we spent behind advertising, quality improvements, we saw increases in display in the marketplace. And all of that resulted not just in the growth, but also perhaps the most important aspect, which is, to your second question, which was that our household penetration went up.

And you think about that as kind of the gift that keeps on giving. As we expand the base of consumers and build the relevance of our category and bring new households in, that bodes quite well for us and seeing that translate to more sustainable growth than just promoting, perhaps, into a period where you might have people more (inaudible) pantry load on a good deal or a good program or even a reminder.

I think even more important than that is that we're starting to see the dynamic of where those new households are coming from as younger. And I think a lot of us questioned whether the relevancy of condensed could match that demographic. But I think the quality improvements, along with the way in which we're positioning the usage has been a very positive influence to that. And although it's early, I mean, I think you need to see household penetration over time, I think the positive -- both the positive demographic as well as the substantialness of the turnaround in the window bodes very well for us going forward.

I think, on the other side, I would say the broth business, which is a really important segment and one that's been growing, is a tough segment. And I think what we learned a little bit on condensed is that we need to get a little further out in front of our support and

we've got to continue to be incredibly sharp on our price gaps until we successfully build enough of the differentiation around the Swanson brand.

I am thrilled, though, that Pacific is back in the game because, as you know, that's a big player in broth. And with the capacity back to full and the distribution coming back, I feel much better about how we will bode in total broth as we go forward. And we're going to try to do a little bit of a fast adapt on learnings as we go into Easter.

On the ready-to-serve side, that was not a pleasant set of results to live through, but it was what we expected to happen. And I do think we are in a much better position on Chunky. And as we go into next year, although that's not the big player during the holidays, it certainly plays around the holidays in a very important way.

And I am encouraged that even if you look at like the latest 4 weeks, as we've kind of gotten ourselves through a lot of the tough comparables on the merchandising side and the promotion side, we're seeing a return to more stable and actually some growing share in the last 4 weeks.

So, overall, advertising worked well, especially when paired with quality. Good to have Pacific back in the game, broth is a battle, ready-to-serve was tough, but the right things to do. And I think the great news about all of this is we're building a stronger sense of confidence among our retail partners. And that's helping us make the case to getting not only the -- some of the distribution we lost that we think was regrettable back in, but also setting the stage as we continue to build innovation out as we go forward.

Operator: Our next question comes from Ken Goldman from JPMorgan.

Kenneth Goldman: And, Ken -- from one Kenny G. to another. Thanks for all your help over the years and best of luck.

Kenneth Gosnell: Thank you.

Kenneth Goldman: I wanted to ask 2 questions, if I can. First, I wanted to get a little more specificity, if we could, on the comments about the strategic reinvestments, Mark. Could you just maybe focus a little bit or focus us a little bit on sort of which areas you might be reinvesting in? What form of those reinvestments might take? So that's my first question. I can leave it there and follow-up (inaudible).

Mark Clouse: Yes, yes. I can hit that one. And then we'll come to the second one.

I think there's three places where I see opportunity to continue to invest. The first area is, as you'll see and are probably beginning to see, I think we've talked about this dynamic before where the snacks business arguably is kind of a year ahead as it relates to innovation than our Meals and Beverage business.

And so what you've got happening in the back half of the year is that kind of first wave of concentrated innovation. So great products like our veggie line on Goldfish as well as our potato chip launch on late July.

And so what I want to make sure we do is adequately support the innovation and perhaps even double down in some areas where we're seeing early success. So I think the first bucket is really around the snacks innovation bundles that are launching.

The second is, one of the things that was really interesting for us on soup was that the condensed advertising that we started early this year. So we started about a month or two earlier than we normally do, especially around some of the eating varieties like tomato soup and grilled cheese, which is one of the areas where we saw a very, very positive response.

So I'd like to continue to do some learning on extending the seasonality, right?

One of our goals is to try to broaden and extend our soup season by doing things that are a little less anchored specifically on cold weather and able to kind of bring usage through. So whether it's some of the eating SKUs where we are going to add a little bit of advertising or even some of the recipe elements on condensed that we know that behavior goes beyond just the winter months is an opportunity to evaluate the ROIs and see where kind of those barriers are.

And then I think also going into Easter, as I mentioned on broth, although I would call it solid performance in the holiday, there were some clear areas of opportunity. And so I want to make sure that our price points and the promotion calendars are set up well there, and we may do a little bit of tactical investment on promotions as we get a little closer to that holiday.

And so the great news is that the flexibility by getting ahead as it relates to EBIT, stronger gross margin than we had anticipated with a little bit better mix and a little bit faster accumulation of our cost plan as well as the -- a little bit of, I'd call, a dampening of inflation is giving us that flexibility, and I think, putting us in a really good spot.

Kenneth Goldman: That's very helpful. And then quickly, you just highlighted, at the end of your comments, the third quarter is your most difficult comparison. Can you just elaborate a little bit on the message you're sending with that comment? Are you concerned a little bit that maybe Street EBIT numbers are slightly aggressive? Or was there some other messaging that I didn't pick up on?

Mick Beekhuizen: Yes, let me take that. So when I think about it, I mean, we generally, obviously, don't want to give guidance with regard to individual quarters. However, I thought, as I also said in my prepared remarks, I thought it was important to highlight that we're starting to lap the M&B pricing benefit in the third quarter. And some of the promotional activities that we have continued. They -- we don't start to -- don't start to lap until the fourth quarter. So as a result, I just wanted to highlight that.

Mark Clouse: I think the other thing, too, Ken, just as you'll note, if you're kind of modeling the balance of the year. As we've said, we're now kind of directing on the cost savings to a little bit of the higher end of the range at 150. If you think about the fact that we've got 90 in the first half, that leaves you about 60 to go.

So you take the dynamic that Mick just described as long with a little bit of a softer contribution. I think what you'll see is a little bit of this kind of ebb through Q3 and into Q4. Again, we feel really good about the underlying fundamentals. There's nothing that's like a looming issue or problem that we're expecting. It really just happens to be the dynamic of the phasing. And I think, again, inclusive of our ability to spend a little bit more into the business, which is great news for us.

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

Bryan Spillane: So, I guess, my question is, I just was going back to the commentary made about household penetration in soup and millennials. I guess my question is, is there a chance -- or what -- how much cannibalization maybe has there been? If you've got advertising on condensed with a better product (inaudible) value? Is that all taking from ready-to-serve?

So is it sort of -- is it household penetration of condensed that's going up? And is it at all cannibalizing ready-to-serve, especially since you didn't have the same type of messaging, at least for this season, on ready-to-serve. So I guess, a real question is underneath it is just how incremental is the improvements you made in condensed than to the overall soup business or has it really just sort of taken some share from ready-to-serve?

Mark Clouse: Yes. It's an interesting question. And again, we are watching very closely the dynamics between the different segments as it relates to where is the source of volume coming from. And there's no doubt that there is some interaction between the 2.

But we -- when we look at our numbers, the ready-to-serve declines are essentially what we expected relative to what we were doing based on the promotional side of the pricing side. And when you look at who we're adding to the condensed side, these are not primarily the same consumers that would be buying Chunky, and so that's good news.

Now are we sourcing from some other condensed or other ready-to-serve players within the category? I do think there is some dynamic there. One of the things that has been very important about how we've repositioned condensed is the strong permission as it relates to quality, whether that's adding more fresh cream or no added preservatives on chicken noodle or the 6 tomatoes in tomato soup, we really feel like that has been a big enabler to, like I said, to kind of create permission in.

And so if you think about where we're sourcing from, it's likely coming from what would be perceived as healthier or options that are a little bit more relevant to that area. So

again, as I think about the portfolio going forward, I still very much like how we set up. I think we've got great brands to position against particular benefits and occasions as well as consumer cohorts. So I'm not worried right now about are we just moving people from one to the other. But even if we did, given the margin advantage of the condensed business, that's not a terrible trade for us to make. But that's not really what we're seeing right now.

Operator: Our next question comes from Nik Modi from RBC.

Nik Modi: Mark, I had 2 questions. Maybe -- I know you recently hired a new Chief Marketing Officer, late last year. So maybe you could just give us some context, background on why Linda is the right person for the overall CMO job. And then the second question is, some of the research we've done at the consumer level would suggest convenience is really resonating.

The convenience message is really resonating with consumers and perhaps that's why they're coming back to the Campbell's franchise. And I just wanted to kind of get your thoughts on as you kind of reestablish relationships with retailers, as you play on this convenience theme even more, is there an opportunity to broaden the portfolio strategy, not just to be in soup, but to kind of get into more of the convenient meals area in terms of more sauces, more toppers, things like that? Any thoughts around that would be useful.

Mark Clouse: Yes. I love the question. The answer -- let me start with Linda. As you may have seen, let me just for a second talk broadly about Meals and Beverage. You do see, when you look at the Meals and Beverage team now, a relatively new set of leaders across our business. And the genesis for that is really a fundamental shift or change in what we're trying to accomplish with Meals and Beverage as we return to a more growth orientation and really are looking at marketing and investment behind the businesses in that division.

And so, in fairness, if you're trying to just cut costs and kind of manage for cash, it's some different skill sets, albeit those are still very important to us. But if you're going to drive growth and innovation, we want to make sure we assemble the team that is best positioned to do that.

And so the combination of a Chris Foley coming from our Pepperidge Farm and Snacks business over to lead the division; and then Linda, who has a rich history, I've known Linda a long time, did a great job in the Nabisco franchises, has been out working in some of the more entrepreneurial spaces, that skill set, I think, is a very good combination for us as we look at really upping our game as it relates to marketing and innovation.

And then complementing that, we have terrific supply chain leader, R&D leader that really helps kind of round out a lot of the team and also a new leader of sales. And I think what we're trying to do is bring kind of a whole new look and feel to what our Meals and Beverage business is. And I think that team is doing a wonderful job in early days, reengaging and connecting with our customers.



I think the convenience message is actually right on. Now I think the condensed is a combination of the fact that convenience is an underlying need for consumers. Now we've paired it with a little bit better product, healthier proposition, which is going very well. But what I didn't talk about, which has been a continued point of success for us is our convenience offerings.

And so what we absolutely believe is exactly what you're suggesting. And as you see us going into next year and innovation becomes a bigger player, we've got a whole host of new packaging forms, product forms and benefit propositions that will be coming through our convenience platform.

And even where we've started, whether it's the sippable, Well Yes! platform or some of our new cup sizes or even as we've tested some new products, like toppers, think of it as kind of yogurt with the toppers that you add in, very similar to soup, so you get that multi-texture experience as a snack or a complement to a meal, are all doing very well, very positive. And we're gaining, I would say, a lot of victories as we talk about kind of reshaping the shelf for the future.

And so I think this combination of goodness and convenience coming together is really what is enabling us to kind of -- as we said from the very beginning is where soup could really play and where we're seeing the resurgence. And as we complement that with cooking, and I would even describe quick scratch cooking as a bit of a convenience driver as well as its simple assembly of ingredients to get a meal. And in particular, within younger or millennial households, that dynamic underpins a lot of the work that we're doing.

So absolutely right that, that's an underlying help to us. But I think, when paired with goodness, that's when we really unlock the potential of the category and a lot of what we're seeing right now.

Operator: Our next question comes from Jason English from Goldman Sachs.

Jason English: Two questions. First, a follow-on to the soup discussion. And I'm looking at the penetration data now, too, it's definitely encouraging to see the uptick on your condensed penetration. It looks like it's up around 3% or so in the latest 13 weeks. But what's surprising is that it's coming with a 3.5% drop for the category. So it looks like consumers are still fleeing the category and all of your penetration growth is coming from a swap out of private label.

How much of that trade up into your brand do you think is due to the supply disruptions with one of the major suppliers out there? And what would you expect, as we go forward, we know that another one of the suppliers already started to buy up some of the lines, it looks like that capacity issue should be unlocked before we get into next soup season. How does this year's gains don't become next year's pain points?

Mark Clouse: Right. Yes, great question. The first thing I just would say, I'm not -- this is always a little bit of a mystery to me the difference between Nielsen and IRI, but the category numbers for us in the quarter that we see on condensed is down under 1% versus the run rate of being down 3%. So I would have said we saw a notable -- I would have said that we've seen a notable improvement in the underlying category dynamic, although not fully the positive yet.

Jason English: Is that penetration, Mark, that you're giving?

Mark Clouse: No. I'm seeing the...

Jason English: Because I'm only looking at the penetration, the number of buyers. You kind of anchored us there. Yes.

Mark Clouse: Oh, only on penetration. Okay, only on penetration. Yes. I think, on penetration, the sourcing for us is a little bit, like I said, we've seen a combination of what we would call lapsed users, and that may be a little bit of a trade-up from private label to us. But some of the new households that are truly new consumers, I think, are benefiting us from a kind of sustainability aspect as we go into next year. I think the overall purchase and the category improvement is also a bit of an encouraging number for us.

As it relates to private label, I mentioned in my comments, there were some supply issues. They weren't everywhere, but on private label. But certainly, it did help us a bit in the quarter. But we also were lapping some other onetime headwinds as it related to storms from a year ago and a little bit of the SNAP dynamic, especially at the end of the quarter.

I think the good news is we're seeing some of those customers make the decision not to come back in with private label, but to just stick with us, given the strength of our performance during the holiday. So that's good news as well. And that, along with, I think, the lapping next year of the headwind of the distribution losses that we would hope to greatly mitigate as we go into next year. I think we've got a lot of -- there's going to be a lot of puts and takes.

But I think the net of it is I feel very good about the underlying health as something that we can build off of next year versus that we just go out and buy some share that we're going to get back next year. So I think those are the drivers that I'm looking at. And of course, we're going to have to watch it very closely as we move forward.

Operator: And in the interest of time, we'll be taking our last question from Chris Growe from Stifel.

Christopher Growe: Congrats, Ken, on your retirement, Ken. Just to ask really quickly on the gross margin. I'm just curious, are you seeing there the benefits of -- or how much of the benefit of the gross margin driven has been from productivity savings versus, say, synergies? Just kind of an understanding of how the synergies are flowing through from

the Snyder's-Lance integration in relation to what has also been a strong productivity environment for the business as well.

Mick Beekhuizen: Sure, sure. Why don't I start off with that. Thanks, Chris. Good question.

So if you also look at kind of the bridge that I included in the presentation, you see the – they're kind of the building blocks for the 150-basis-point improvement and you see kind of two different components in there that have helped our gross margin, in addition to the overall mix.

One of them is the productivity improvements, which is activities throughout our supply chain in order to continue to help offset some of the inflationary pressures that we see. But then separately, we're also highlighting the cost savings program. And this is also where you would see the benefits from the integration of the Snyder's-Lance business.

If you look at it from kind of a total company perspective, you see that we generated year-to-date about \$90 million of cost savings that's that particular program. However, it goes across the P&L. That \$90 million, I'd say about 50-50 of that is within either the COGS and then the remainder is within the other components of our P&L.

Mark Clouse: If you think about it, Chris, so if you go back to the kind of gross margin bridge for a second, you've got inflation of 2%, which is about 160-basis-point headwind and productivity -- base productivity, as Mick said, those are the programs that we're doing kind of on a more annual basis, was about 140 basis points of good.

So the net of inflation and productivity, not quite equal, but about a 20-bp headwind. And then we picked up 90 basis points as it relates to the cost savings. And so if you think about productivity at 140 and cost savings about 90, that gives you kind of the relationship that you're looking for.

Christopher Growe: Yes. And just to be clear and one final question would be basically the synergies within that. I guess, I'm just trying to understand, you talked about a successful integration so far of the business. Is it synergies as part of the, I guess, what you call cost savings? Is that what's helping drive that incremental cost saving number? That's my only question.

Mark Clouse: Yes. No, no, I got you. Okay. I see what you're saying. Yes, the -- if you took the split of the \$90 million, as Mick said, in the first half. You've got about half and half. So half is what we call enterprise cost savings. So those were like supply chain reinvention and network optimization. And the synergies were about \$45 million of the \$90 million. So you're about 50-50 for the first half of the year. Is that the question you wanted?

Christopher Growe: You got it. Yes.

Operator: Thank you. And that does conclude the question-and-answer session for today's conference.

Ladies and gentlemen, thank you for participating in today's call. This does conclude the program. You may all disconnect. Everyone have a wonderful day.