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CPB - Q3 2015 Campbell Soup Co Earnings Call

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OVERVIEW:

Co. reported 3Q15 as reported net sales of $1.9b and adjusted EPS of $0.62. Expects FY15 sales growth to be closer to low end of minus 1% to plus 1% and adjusted EPS growth to be minus 5% to minus 3%.

CORPORATE PARTICIPANTS

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Denise Morrison *Campbell Soup Company - President, CEO*

Anthony DiSilvestro *Campbell Soup Company - SVP, CFO*

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Robert Moskow *Credit Suisse - Analyst*

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Chris Growe *Stifel Nicolaus - Analyst*

Matthew Grainger *Morgan Stanley - Analyst*

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Eric Katzman *Deutsche Bank - Analyst*

John Baumgartner *Wells Fargo Securities - Analyst*

Akshay Jagdale *KeyBanc Capital Markets - Analyst*

Alexia Howard *Bernstein - Analyst*

Jason English *Goldman Sachs - Analyst*

David Driscoll *Citi Research - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Campbell Soup third-quarter 2015 earnings call. (Operator Instructions) As a reminder, today's conference call is being recorded.

I would now like to turn the conference over to Jennifer Driscoll, Vice President, Investor Relations. Please go ahead.

Jennifer Driscoll - *Campbell Soup Company - VP IR*

Thank you, Candace, and good morning, everyone. Welcome to the third-quarter earnings call for Campbell Soup's fiscal 2015.

With me here in New Jersey are Denise Morrison, President and CEO; Anthony DiSilvestro, CFO; and Anna Choi, Senior Manager of Investor Relations.

As usual, we've created slides to accompany our earnings presentation. You will find the slides posted on our website this morning at investor.campbellsoupcompany.com. The call is open to the media, who participate in listen-only mode.

Today we will be making 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 2 in our presentation or to our SEC filings for a list of the factors that could cause our actual results to vary materially from those anticipated in any forward-looking statements.

In the third quarter, the Company incurred charges associated with our recently announced initiatives to implement a new enterprise design that better aligns with our strategy, reduces costs, and streamlines our organizational structure. The Company commenced a voluntary separation program and recorded pretax restructuring charges of $9 million related to the program for severance and benefit related costs. The Company also recorded pretax charges of $9 million in administrative expenses related to the implementation of these initiatives.

The aggregate after-tax impact of the restructuring charges and implementation costs was $11 million or $0.04 per share. Our comparisons of fiscal 2015 with 2014 will exclude those items impacting comparability.

Because we use non-GAAP measures, we've provided a reconciliation of these measures to the most directly comparable GAAP measure, which is included in our appendix.

Before we begin our discussion of the quarter I would like to cordially invite our sell-side analysts and institutional investors to our annual Investor Day at Campbell's world headquarters. RSVPs are required. Campbell vendors and all others are invited to join by webcast.

This year's event will be held the afternoon of Wednesday, July 22. We plan to make it a very informative day for you, featuring presentations by Denise Morrison, Anthony DiSilvestro, and our three divisional Presidents. We will include updates on our plans for the Company, the three divisions, and our cost-saving programs and we will also allow plenty of time for interacting with management.

So with that, let me turn the call over to Denise Morrison.

Denise Morrison - *Campbell Soup Company - President, CEO*

Thank you, Jennifer. Good morning, everyone, and thanks for joining our third-quarter call. A great deal has transpired since we last spoke in February, both at Campbell's and in the marketplace, so I believe it's worthwhile to spend time on both topics today.

I will share my perspective on the third quarter and then comment on the broader state of the consumer and events in the food industry since our last earnings call. I'll also provide an update on the progress we made since last quarter in our strategic enterprise redesign which we discussed in February.

Overall, I am pleased with our results this quarter, especially the improvement in our gross margin. While sales declined in the quarter, this was primarily due to unfavorable currency and the impact of retailer inventory movements on our U.S. soup business.

Organic net sales declined by 1%. Importantly, gross margin improved as we took several actions to address the declines in the first half, and adjusted EBIT and EPS were better than expected.

In U.S. Simple Meals, U.S. soup sales were below our expectations, declining 10%. Consumption and market share remained relatively stable.

The gap between consumption and sales performance was primarily due to significant unfavorable inventory movements by retailers. Our analysis suggests that this was largely a result of our reduction in trade spending and merchandising as compared to the prior-year quarter.

Last year, promotions did not generate the anticipated lift; therefore reducing our spending was the right thing to do. In doing so, we expected consumption and shipments to be down, with retailer inventories relatively stable.

In fact, consumption was actually better than we expected; but retailer inventory declines exceeded our expectations and are now below prior-year levels. Consequently, sales were below expectations.

Within our soup portfolio, we are encouraged by the performance of our premium offerings. Slow Kettle continues to perform well, and our new Campbell Organic soups achieved solid distribution gains. Soups for easy cooking are below expectation. Looking ahead, we will begin shipping Campbell's fresh brewed soup in K-Cups in the fourth quarter.

In our other Simple Meals business, Prego continued to perform well, led by increases in white sauces and distinctive varieties. Consumption of Campbell dinner sauces remains, strong and we will be adding new grilling sauces to the platform.

Plum sales increased double digits in the quarter with both share and distribution gains. Plum is now the clear market share leader in organic baby food in the United States.

Our shelfstable U.S. Beverage business performed within our expectations. While this business remains challenged, the early read on V8 veggie blends is encouraging. ACV distribution is on plan, and trial is meeting our expectations; most importantly, depth of repeat is strong. V8 protein bars and shakes are performing below expectations.

In Global Baking and Snacking, excluding currency, sales rose with solid volume gains in Australia and Indonesia. We feel very good about the progress we have made in Asia Pacific under the new leadership team in that markets.

In the US, our Pepperidge Farm business delivered sales gains in fresh bakery, cookies, and crackers. Notably, Goldfish sales increased 5% in the quarter, and marketing increased across our Biscuit and Snacks business. I am particularly pleased that this segment's operating earnings increased 18%.

Bolthouse Farms beverages and salad dressings grew slightly. In our premium fresh beverage business, we were cycling inefficient promotions from a year ago, which we did not repeat in the quarter.

Sales were negative also negatively impacted by a planned SKU rationalization and the introduction of fewer new items, to reduce complexity. Our decision to optimize promotional spending contributed to much stronger operating earnings for the segment.

Looking ahead, our spring innovation is now in the market, including our new coldpressed ultra-premium beverage line, 1915 by Bolthouse Farms, and the initial read has been positive, setting the stage for better sales growth in beverages in the fourth quarter.

Clearly our gross margin improvement was the main reason for encouragement in the quarter. We achieved net price realization by reducing promotional spending and taking pricing actions. So far, consumer response to our pricing actions has been within our expectations.

We benefited from moderating inflation and other factors and delivered an adjusted gross margin increase of 70 basis points, mitigating declines in the first half of the fiscal. Our adjusted EBIT of $305 million and EPS of $0.62 were ahead of what we expected.

We are improving our EBIT and EPS guidance to the favorable end of our range. Anthony will discuss our guidance in more detail in a few minutes.

Turning now to the industry dynamics, this is a tumultuous time in the food industry. We all recognize that the consumer landscape has changed dramatically, driven by a number of seismic shifts: the Great Recession's impact on consumer purchasing behavior; global demographic changes; profound shifts in consumer preferences relative to food; and the disruptive impact of digital technologies.

All of these are contributing to mounting consumer demand for greater transparency about where and how their food is made. These shifts are converging to create a new normal for the food business. They produced a persistently challenging environment, with significant volume pressure on mainstream food products, particularly center store categories.

As a consequence of this new normal, industry participants have initiated a series of strategic actions including spinoffs, consolidation, acquisitions of small purpose-driven brands, and aggressive cost-cutting measures. The broad adoption of zero-based budgeting has set a new bar for cost management in the industry; and the recent consolidation only intensifies the situation, placing even greater focus on cost management.

Campbell is focused on creating shareholder value by strengthening our core business and expanding into faster growing spaces. Areas of emphasis include health and well-being, particularly fresh and organic foods, and biscuits and snacks in both developed and developing markets, with a focus on Asia and Latin America.

We are increasing our investment in digital marketing and connecting with consumers in line with our purpose: real food that matters for life's moments. We are doing all of this while instilling an ownership mindset that will help us aggressively manage our costs.

We have been paying close attention to the industry dynamics and strongly believe a strategy that focuses on driving growth, aggressively reducing costs, and reinvesting a portion of the savings in the areas of our business with the greatest potential is the best way to create shareholder value over the long term.

With that as context, let me update you on our strategic enterprise redesign. Anthony DiSilvestro will update you on our major cost-reduction efforts in a few moments.

We've begun to make changes in the structure of our enterprise to unlock the value of our assets, eliminate barriers to growth, and fulfill our dual mandate to strengthen our core business and to expand into faster growing spaces. These changes are absolutely essential and will enable us to fully leverage all we've learned about the key trends in the consumer, customer, and business environment.

We are working hard to complete the reorganization of our business operations into three principal divisions. First, Americas Simple Meals and Beverages, which we will manage for moderate growth and higher profit. Second, Global Biscuits and Snacks, which will help us leverage the scale of our combined Pepperidge Farm, Arnott's, and Kelsen businesses across developed and developing markets. And finally, our Packaged Fresh division, where we will make focused investments to accelerate our growth in the Packaged Fresh category.

We've appointed the leadership teams for both Americas Simple Meals and Beverages and the Global Biscuits and Snacks division in the third quarter. Additionally, Ed Carolan has been named to the Campbell leadership team for our new Integrated Global Services group, which will include elements of finance, information technology, marketing services, procurement, and human resources. This group will be a key step in our efforts to reduce costs and elevate operational excellence through shared services and capability building across the enterprise.

We believe our strategic enterprise redesign, inclusive of our cost-reduction efforts, will be game changing for our Company and for our culture. As we pursue our dual mandate, guided by our purpose and growth agenda, this represents a logical next step in our goal of shifting our center of gravity, accelerating our growth trajectory, and maximizing value for our shareholders.

In closing, it has been a very eventful quarter for Campbell. Amidst all the organization changes underway at the Company, the team remains focused on driving our performance.

It's important to remember that while our industry navigates this volatile landscape, we continue to look at our business and the operating environment with clear eyes and a clear plan to make the necessary changes at Campbell's to improve our performance. I look forward to sharing more of our strategic plans with you at our Investor Day on July 22.

Thank you; and now I'll turn the call over to Anthony for a detailed discussion of our results.

Anthony DiSilvestro - *Campbell Soup Company - SVP, CFO*

Thanks, Denise, and good morning. Before getting into the details I wanted to give my perspective on our results, guidance, and our cost-reduction efforts.

Overall, we are pleased with our results for the third quarter. Organic sales were modestly below our expectations, declining slightly, which was primarily the result of movements in retailer inventory levels in the US impacting our U.S. soup business.

Our gross margin percentage increased in the quarter, helping to recover some of the declines we experienced in the first half. Gross margin is benefiting from reductions in trade promotion spending across a number of our businesses, list price increases we've taken in the marketplace, and a moderating level of cost inflation and improved performance relative to the first half in the area of freight and distribution.

With one quarter remaining in the fiscal year, we are narrowing our guidance ranges. While sales are expected to be at the low end of the range, benefits from our cost-reduction efforts and a reduction in expected incentive compensation costs are pushing us to the favorable end of the ranges for adjusted EBIT and adjusted EPS.

As we discussed, over the next three years we plan to reduce costs by at least $200 million or 2% to 3% of annual sales. Leveraging a zero-based approach, we will streamline our organization's structure to eliminate excess layers and target expense reductions across a number of cost categories.

In connection with our organization efforts, in the quarter, for certain US-based employees nearing retirement, we offered a voluntary employee separation program under which most of the eligible employees who elected to participate will exit by the end of the fiscal year. Additionally, as we begin to implement a zero-based budgeting approach, we are beginning to realize savings in a number of categories.

Now I'll review our results in more detail. For the third quarter, net sales on an as-reported basis declined by 4% to $1.9 billion, primarily due to the negative impact of currency translation. Excluding currency, organic net sales decreased 1%, as declines in U.S. Simple Meals -- driven by the adverse impact of retailer inventory movements on US soup sales -- were partly offset by organic sales gains in our Global Baking and Snacking and International segments.

Adjusted EBIT in the quarter fell 2% due to unfavorable currency translation and increased marketing spending on a constant currency basis, partly offset by improved gross margin performance. Reflecting a lower share count from our strategic share repurchase program, adjusted earnings per share of $0.62 was comparable to the prior year quarter.

For the nine-month year-to-date period ending April, reported sales were comparable to the prior year, with organic sales gaining 1%, led by our performance in Global Baking and Snacking. Adjusted EBIT declined 4% as the negative impact of a lower gross margin percentage and currency translation were partly offset by volume gains and lower marketing and administrative expenses. EPS of $2.02 is down 1%.

Decomposing our sales performance, organic sales declined by 1% while currency translation reduced sales by 3 points. Our two primary foreign currencies, the Australian dollar and Canadian dollar, both weakened against the US dollar.

Within organic sales, volume mix contributed 3 points to the sales decline. The decline was primarily related to our U.S. Simple Meals segment.

Higher selling prices, primarily in U.S. Simple Meals and Global Baking and Snacking added 1 point of growth. Reduced promotional spending across our four largest segments contributed 1 point to sales growth. The most significant reductions were in U.S. soup, Pepperidge Farm, and Bolthouse Farms and reflects our efforts to improve price realization across the portfolio.

As you will see on the next chart, these price realization efforts, both on list price and trade promotions, are contributing to improved gross margin performance in the quarter.

Our adjusted gross margin percentage increased by 70 basis points compared to the prior year. First, cost inflation and other factors had a negative margin impact of 2.4 points.

For the quarter, cost inflation as a rate increased by approximately 2%. In addition, cost of product sold reflects the adverse impact of a stronger US dollar on the input costs of our International businesses. And while we have made progress in our performance throughout the quarter, particularly in the area of freight and distribution, supply chain costs are above the prior year.

Due primarily to the sales decline in U.S. soup, we experienced 30 basis points of negative mix. In aggregate, our price realization actions have contributed 1.6 points of margin expansion, with 70 basis points from higher selling prices, primarily in U.S. Simple Meals and Baking and Snacking, and 90 basis points from lower promotional spending across four of our five reporting segments. Lastly, we continue to drive meaningful productivity gains in our supply chain, which contributed 180 basis points of margin improvement.

Marketing and selling expenses decreased 2% in the quarter due to the impact of currency and lower marketing overhead expenses, partly offset by an increase in advertising and consumer promotion expenses, which increased by 8%. Increased levels of advertising in Global Baking and Snacking were partly offset by reductions in U.S. Simple Meals and U.S. Beverages.

Adjusted administrative expenses were down 1% as spending reductions and the impact of currency were mostly offset by higher incentive compensation costs compared to the year-ago quarter. Across both of these expense lines, we are achieving benefits from our cost managing efforts, including our $200 million cost-reduction initiatives.

For additional perspective on our performance, this chart breaks down our EPS changes between our operating performance and below-the-line items. As you can see, adjusted EPS was comparable to the prior year. Excluding the impact of currency, growth in adjusted EBIT contributed $0.01 of EPS growth.

Net interest expense declined $2 million dollars versus a year ago as we reduced our debt level. Our adjusted tax rate for the quarter was 30.3%, down 40 basis points versus the prior-year adjusted rate. With rounding, neither interest expense nor taxes had an EPS impact for the quarter.

Under our strategic share repurchase program, we have repurchased $150 million year to date, and this has added $0.01 to EPS in the quarter. Currency had a $0.02 negative impact on EPS in the quarter. We continue to estimate that currency will have a 2 point or $0.05 per share negative impact for the full year.

Now turning to our segment results, in U.S. Simple Meals, sales declined 6%, driven by a 10% decline in U.S. soup sales. While dollar consumption of soup in measured channels declined by just 1%, movements in retail inventory levels compared to the prior year drove most of the sales decline in the quarter.

The decline in soup sales reflects lower volumes, partly offset by a reduction in promotional spending and higher selling prices. Sales and other Simple Meals increased 2%, driven by Prego pasta sauce and Plum Organics.

Operating earnings for U.S. Simple Meals declined 16%, reflecting the lower sales and a lower gross margin percentage, partly offset by lower marketing. The lower gross margin percentage includes cost inflation, which was above the Company average, and the impact of unfavorable product mix.

Global Baking and Snacking had a strong quarter as 5% organic sales growth was driven by the performance in Arnott's biscuits, with volume gains in Australia and Indonesia. Sales gains in Pepperidge Farm were driven by growth in Goldfish crackers and fresh bakery, partly offset by declines in sales of Pepperidge Farms frozen products.

Kelsen also grew sales in the quarter. Operating earnings increased 18%, driven by gains in both Pepperidge Farm and Arnott's, reflecting improved gross margin performance and sales growth.

In the Bolthouse and Foodservice segment, organic sales decreased 1% with sales declines in Bolthouse carrot and natural ingredients partly offset by growth in Bolthouse Farms beverages and salad dressings and North America foodservice. Operating earnings increased 35% on lower promotional spending in Bolthouse Farms beverages and the productivity improvement.

U.S. Beverage sales fell 2%. Benefiting from lower marketing spending, operating earnings increased by 17%.

International Simple Meals and Beverages organic sales improved 6% on gains in both the Asia Pacific region and in Canada. Operating earnings were comparable to the prior year as the benefit of higher organic sales was offset by the negative impact of currency translation.

For U.S. soup, sales declined by 10% in the quarter, with condensed down 4%, RTS down 18%, and broth declining 13%. Movements in retailer inventory levels, which we believe were driven by the reduction in year-over-year promotional spending, was the primary driver of the sales decline. As I mentioned, consumer takeaway in measured channels for the comparable 13-week period ending May 3 declined 1% in dollars.

Year-to-date, as shown at the bottom of the chart, soup sales decline 3% versus the prior year, as a 3% decline in condensed and a 5% decline in ready-to-serve was partly offset by 2% growth in broth. Consumer takeaway in measured channels for the comparable 39-week period ending May 3 also declined 1% in dollars.

We ended the quarter with retailer inventory positions below prior-year levels.

Here is a look at US wet soup category performance and our share results as measured by IRI. For the 52-week period ending May 3, 2015, the category as a whole declined 1.1%. Our sales in measured channels declined 1.4%, with weakness in ready-to-serve soups, notably Homestyle, partly offset by gains in broth.

Our share declined just 20 basis points in the last 52 weeks and has been relatively stable for three years. Other branded players in aggregate had a share of 28%, also declining 20 basis points; while private label, with a 13% share, gained 40 basis points, reflecting recent gains in broth.

We had strong cash flow performance in the first nine months. Cash from operations increased by $208 million to $971 million due to lower working capital requirements, lapping the taxes paid in 2014 on the divestiture of the European Simple Meals business, and lower pension contributions. We continued to forecast that cash from operations for the full year will reach $1.1 billion.

Capital expenditures increased to $242 million. We continue to expect capital expenditures of about $400 million for the year as we increase capacity to support growth in our faster growing businesses.

We paid dividends totaling $297 million, reflecting our current quarterly dividend rate of $0.312 per share. In aggregate, we repurchased $192 million of shares in the first nine months, $150 million of which were under our strategic share repurchase program. The balance of the repurchases were made to offset dilution from equity-based compensation.

Net debt declined by approximately $130 million to $3.6 billion.

Now I'll review our 2015 guidance. As a reminder, this guidance is based off a 52-week adjusted 2014, as shown on the chart. Our guidance ranges also include an estimated negative impact on currency translation of 2 points across sales, EBIT, and EPS.

As we announced earlier this morning, given we just have one quarter remaining, we are narrowing our fiscal 2015 guidance. For sales, we expect to be closer to the low end of our minus 1% to plus 1% range. For both adjusted EBIT and adjusted EPS, we now expect to be at the favorable end of the previously announced ranges of minus 7% to minus 5% for adjusted EBIT, and minus 5% to minus 3% for adjusted EPS.

The outlook in both adjusted EBIT and adjusted EPS reflects our cost-management efforts, including benefits from our previously announced $200 million cost-reduction initiative, as well as a reduction in expected incentive compensation costs. At the end of the second quarter, we said that incentive compensation represented a $0.06 per share headwind for 2015. Based on our current outlook, we are now forecasting that this impact will be approximately $0.04 per share, most of which will impact our fourth-quarter performance.

For the full year, we continue to forecast that our gross margin percentage will decline by approximately 1 point. The tax rate will be in the range of 30% to 31%, and interest expense will be slightly below the prior year.

That concludes my remarks and now I will turn it back to Jennifer for Q&A.

Jennifer Driscoll - *Campbell Soup Company - VP IR*

Thanks, Anthony and Denise. We will now start our Q&A session. Since we have a limited time, out of fairness to other callers, please ask only one question at a time.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Robert Moskow, Credit Suisse.

Robert Moskow - *Credit Suisse - Analyst*

Hi, thank you. Good morning. I had a question about the promotional spending cuts. Do you think that that could extend into fiscal 2016 as well? How much additional discipline do you expect to use in the soup franchise and others?

And then just a quick one on Global Snacking. Denise, you have talked about Global Snacking for a while. But Arnott's and Pepperidge Farm, they are different brand names, the packaging is different, there is not a lot of crossover -- that I see anyway -- in terms of products that are similar.

Is there additional kinds of synergies that you could see between the regions that they haven't been capturing yet? Thanks.

Denise Morrison - *Campbell Soup Company - President, CEO*

Okay. Let me take the first one on the trade spending. I want to go back in particularly to U.S. soup; and I am going to go back to the year 2013 where we actually increased our -- or we were actually operating our trade at a certain rate and we had a 14% lift in sales. In 2014, we increased that by about 3% and our sales were flat.

So our analytics suggested that that was not a good spend. And there were many unproductive promotions out there that weren't doing the retailer any good or us any good, so we course-corrected that in 2015 in the quarter and went back to the same rate we were spending in 2013.

We are still within the ACT of 25%, which is our goal; and that strategy really hasn't changed. But that said, we continue to be much more disciplined in our analytics on every dollar that we are spending out there and the return we are getting for that, and that will continue into the future.

On Arnott's and Pepperidge Farm, they definitely are different. We have been expanding the Arnott's brand beyond Australia into Southeast Asia and particularly Indonesia and also in Asia in Hong Kong. Pepperidge Farm has been expanding more into Canada.

And where we are seeing the synergies in an R&D; there is a lot of sharing going on in that area. But by putting the Pepperidge Farm, Arnott's and Kelsen brands together in one division, we expect that part of that will be a Global Brands team that we will start to look at, now that we have platforms in these countries, how can we expand with the brands that we have to take advantage of that scale?

So more to come on that, but that is the plan.

Anthony DiSilvestro - *Campbell Soup Company - SVP, CFO*

Rob, I will just add to Denise's comment on the first part. We are not going to comment too specific on 2016, but we are very focused on improving our gross margin over time. And we recognize part of that program has to come from net price realization, and to me there's three areas we will be looking at.

One is we will continue to look for opportunities to improve our list price realization. We will continue to drive our analytics to improve the efficiency of our trade spend, whether that is removing unprofitable deals or improving the profitability of others. And we will also look for strategic opportunities to move up our promoted price points over time.

So those three things collectively will contribute to price realization, which will hopefully contribute to gross margin expansion.

Robert Moskow - *Credit Suisse - Analyst*

Okay, thank you.

Operator

Andrew Lazar, Barclays.

Andrew Lazar - *Barclays Capital - Analyst*

Morning, everybody. Hi, I realize you, with respect to gross margin I guess you kept the gross margin guidance for the full year the same as previously, even though the fiscal 3Q gross margin came in what seems like better than you and many investors had expected. I am just trying to get a sense of -- is there something that you see in the fourth quarter, albeit it's a seasonally small quarter, that would suggest gross margin steps back a bit or something doesn't come through quite as significantly? Or is it just -- it's a small quarter and see how it plays out?

Anthony DiSilvestro - *Campbell Soup Company - SVP, CFO*

Yes, Andrew, I would say relative to our own expectation, gross margin was only slightly better than we expected in the third quarter. And that's kind of flown through to the change in guidance.

At the end of the second quarter, we did anticipate and did expect to improve gross margin percentage in both the third quarter and the fourth quarter. So we do continue to anticipate a modest improvement in gross margin percentage in the fourth quarter as well, to get back to that -- close to that minus 1 point forecast that we gave you guys.

Andrew Lazar - *Barclays Capital - Analyst*

Got it. Anthony, are inventories at a point where they are artificially low, such that shipments outpace consumption going forward into next fiscal year? Or are we just at a new ongoing level of inventory that now maintains from here?

Anthony DiSilvestro - *Campbell Soup Company - SVP, CFO*

Yes, that is a really challenging question to answer. Obviously, we don't control the level of retailer inventory levels. We do see that they are down relative to last year.

I would say if they follow their typical pattern and get close to where they were at the end of the four quarter last year, that would imply some tailwind for us on soup sales in the four quarter. But again, that one is really hard for us to project.

Andrew Lazar - *Barclays Capital - Analyst*

Understood. Thank you.

Operator

Chris Growe, Stifel.

Chris Growe - *Stifel Nicolaus - Analyst*

Hi, good morning. I just have a question for you, a bit of a follow-on to Rob's question if I could, which is (technical difficulty) keeping total spending, marketing promotion (technical difficulty)

Jennifer Driscoll - *Campbell Soup Company - VP IR*

Chris? I'm sorry, Chris; you are really cutting out. Do you have a handset you could use?

Chris Growe - *Stifel Nicolaus - Analyst*

I am on the handset, so maybe I will requeue. Is this any better?

Jennifer Driscoll - *Campbell Soup Company - VP IR*

It still sounds -- you are in and out. Yes, could you call back in and we will put you back in maybe after the next one?

Chris Growe - *Stifel Nicolaus - Analyst*

Sure. Thank you.

Jennifer Driscoll - *Campbell Soup Company - VP IR*

Operator, can you make sure that happens?

Operator

Yes. Thank you. Matthew Grainger, Morgan Stanley.

Matthew Grainger - *Morgan Stanley - Analyst*

Hi, good morning, everyone. I'll apologize in advance to Chris if I front run his question; that wasn't my intention. But I wanted to ask about promotion too.

I guess, Anthony and Denise, I appreciate some of the progress you made during the quarter on gross margin. But it also feels like we have gone from one extreme to the other extreme, with gross margins stronger on lower promotion and higher pricing, but also unwinding a lot of the progress that it felt like you were making on volumes and inciting some inventory reduction by retailers.

So I guess, I think you touched on elasticity being roughly in line. But is this really the type of volume response you expected to these promotional changes? If so, do you feel that this is the right balance going forward?

Denise Morrison - *Campbell Soup Company - President, CEO*

Yes, Matt, I think that what we have been paying very close attention to is consumption and market share. To give you some idea of that, our consumption was down 1% for the quarter; condensed was down 1%; RTS was down 2%; RTS premium was up 28%; Slow Kettle was up 50%.

So we are continuing to see stability in the category and in our performance in the category. So that is what we have been paying attention to, as opposed to excess inventory driven by promotion spending or the latter effect.

Matthew Grainger - *Morgan Stanley - Analyst*

Okay. So there's nothing in the reaction to the promotional changes here in Q3 that you feel a need to change -- tweak strategy in the short term?

Anthony DiSilvestro - *Campbell Soup Company - SVP, CFO*

No, I would say on soup, that the consumption has actually held up a little bit better than we had anticipated, given the reduction in trade promotion.

Matthew Grainger - *Morgan Stanley - Analyst*

Okay. And can I ask just a quick follow-up on inventories? Clearly a big part of that was a reaction to the changes in promotional support, but there has also been some press reports pointing to individual retailers actively shifting the balance of merchandising activity away from some of the center-of-store categories.

So just curious whether you think some of what we saw here in Q3 was more sort of broad programmatic changes at major retailers as opposed to a specific reaction to your behavior.

Anthony DiSilvestro - *Campbell Soup Company - SVP, CFO*

No; we think it is more about what happened last year. What happened in the third quarter last year, we increased quite significantly the amount of trade promotion in U.S. soup. And, quite frankly, it did not result in the lifts we had expected; and it resulted, therefore, in higher inventory levels at retail.

All we're doing is kind of wrapping that. So this is more about what happened last year than what is happening this year.

Denise Morrison - *Campbell Soup Company - President, CEO*

And this year we actually gained 4 feet of shelf space for premium soup.

Matthew Grainger - *Morgan Stanley - Analyst*

Okay, all right. Thanks both.

Jennifer Driscoll - *Campbell Soup Company - VP IR*

Have we got Chris back?

Operator

We do have Chris Growe.

Chris Growe - *Stifel Nicolaus - Analyst*

Okay. How does this sound?

Jennifer Driscoll - *Campbell Soup Company - VP IR*

Much better. Thank you.

Denise Morrison - *Campbell Soup Company - President, CEO*

Very good.

Chris Growe - *Stifel Nicolaus - Analyst*

I wish I could say was calling from a beach somewhere, but I am unfortunately in my office here. I just had a quick question; it was a bit of a follow-on to Rob's question earlier, and forgive me if you answered this. I may have missed it.

But as you have reduced promotional spending but kept your overall marketing and promotional spending, that pressure on the consumer, it would imply that more money is going behind advertising. Is that right? Or should that overall 25% of sales start to come down as you get more efficient with your trade spending?

Denise Morrison - *Campbell Soup Company - President, CEO*

The 25% ACT is about the average in CPG, so we keep that as a guard rail. But the divisions will work with all the drivers of demand to figure the right mix for the brands that they are responsible for.

In this quarter, we actually did have an increase in advertising by about 8% -- 11% in constant currency dollars. But that mostly went toward the biscuit and snacks business in both the United States and in Australia. There was a reduction in advertising in consumer in the Simple Meals business.

Chris Growe - *Stifel Nicolaus - Analyst*

Okay. Does that advertising increase then more than make up for the decline in trade spending?

Anthony DiSilvestro - *Campbell Soup Company - SVP, CFO*

No. Total marketing, advertising, consumer and trade is down a bit in aggregate compared to last year.

Chris Growe - *Stifel Nicolaus - Analyst*

Okay. If I could just ask one other follow-up as well, just in relation to the new product contribution, I know you are focused more on fewer, bigger, better, if we can use that term. I am just curious.

You had a lot of new product activity this year in 2015. Has that been contributing strongly to revenue growth for the year? Is there any metrics you can look at, like how much your revenue has come from new products this year?

Denise Morrison - *Campbell Soup Company - President, CEO*

I don't know if we've got that figure.

Anthony DiSilvestro - *Campbell Soup Company - SVP, CFO*

I don't have that figure in front of me.

Denise Morrison - *Campbell Soup Company - President, CEO*

Yes, I don't either. I think that I can address the fewer, bigger, though. Because we had still had a disproportionate amount of line extensions that -- things like soup for easy cooking that just haven't contributed meaningfully -- and it's created some complexity in our supply chain. So what we have been doing is really focusing on fewer, bigger, platforms -- like the dinner sauces, like the organic soup, like the Slow Kettle -- that we can build and will have a meaningful contribution.

We are going to try some things that aren't going to work. The trick is to catch them early and move on.

Chris Growe - *Stifel Nicolaus - Analyst*

Okay. Thank you for the time.

Operator

Bryan Spillane, Bank of America.

Bryan Spillane - *BofA Merrill Lynch - Analyst*

Hey, good morning, everyone. A question about U.S. Beverages. In this quarter, sales were only down modestly I guess year-over-year, and you had pretty good profit contribution. I understand I guess part of that is just the marketing expense was lower.

But are we closer to the point now where you feel like you have got that business stabilized? Or is that just too much of a read into this quarter?

Denise Morrison - *Campbell Soup Company - President, CEO*

Yes, I call them green shoots, not waving the victory flag yet. But we are again seeing really positive signs from the new V8 veggie blends and the impact that is having on our vegetable juice. Our Splash business is strong. Our singleserve business did pretty well in the quarter.

Where we have been hit is the V8 V-Fusion, and we are just dealing with that one.

Bryan Spillane - *BofA Merrill Lynch - Analyst*

Thank you. Then just one follow-up, and maybe I am not following this correctly. But it sounds like retailers didn't buy as much soup as you thought they would have; yet the takeaway was a little bit better even in response to the promotional level.

So did retailers not buy enough soup? Like would you have sold more soup if retailers had bought more? Or is that not the right way to read it?

Anthony DiSilvestro - *Campbell Soup Company - SVP, CFO*

No, I wouldn't read it that way. I think your first part of your question was right; it is that the consumption has held up better than we expected. But the change in retailer inventory levels was more than we expected.

Bryan Spillane - *BofA Merrill Lynch - Analyst*

Okay. Thank you; have a great holiday.

Anthony DiSilvestro - *Campbell Soup Company - SVP, CFO*

You too.

Denise Morrison - *Campbell Soup Company - President, CEO*

Thanks. You too.

Operator

Eric Katzman, Deutsche Bank.

Eric Katzman - *Deutsche Bank - Analyst*

Hi, good morning, everybody. I have maybe a little bit of a longer-term question, then a short-term question. Why don't we deal with the latter first, the short-term?

Anthony, the corporate expense line was a lot lower than we had expected. Is that a function entirely of the incentive comp, or is there other stuff going on there?

Anthony DiSilvestro - *Campbell Soup Company - SVP, CFO*

When you say the corporate lines, unallocated corporate?

Eric Katzman - *Deutsche Bank - Analyst*

Yes, exactly, within the segments.

Anthony DiSilvestro - *Campbell Soup Company - SVP, CFO*

Yes, I think what we are seeing is a relatively big benefit from our cost-management efforts. Earlier in the year we had put some restrictions on hiring. We had put some restrictions on discretionary spending.

And then later in the year we started our $200 million cost-reduction initiative, and we are seeing some early benefit from that. But I think you put those two things together and we are doing a bit better on the cost-management side.

A lot of that is coming through the G&A line. Some of it is coming through marketing overhead. And we're just seeing a little bit -- doing a little bit better on the cost side than we had originally anticipated.

Eric Katzman - *Deutsche Bank - Analyst*

Okay. Then, Denise, I guess the longer-term question is, at CAGNY you told us that in Simple Meals you are going to more of a relative top-line approach. And in listening to your explanations today and certainly over the last couple of years, there has been new product efforts and promotion, and sometimes it has worked and sometimes it hasn't, and that has swung things around both from a sales to gross margin to profit standpoint.

So as you implement more of the Simple Meals or relative top-line approach and combine with ZBB, do you basically anticipate that division sales being flat to down and profit up, as promotion is just less volatile and arguably less of a negative? Maybe you can give us some initial thoughts there; and I will pass it off. Thanks.

Denise Morrison - *Campbell Soup Company - President, CEO*

I think it's fair to say that a couple years ago the Simple Meals business was in a hole. And we have gotten to the point where we have gotten stability in consumption and market share over the past two years. Now we have got to get to profitable growth.

That said, that is going to be moderate, based on where that category is and where it plays today. We do anticipate margin expansion in that division as well.

So that is the portfolio role that Americas Simple Meals and Beverages will play.

Eric Katzman - *Deutsche Bank - Analyst*

All right. Thanks. Have a good weekend.

Operator

John Baumgartner, Wells Fargo.

John Baumgartner - *Wells Fargo Securities - Analyst*

Thanks. Good morning. Denise, just wanted to come back to the Beverages side for a minute. You have been out some time now with the independent distributor model for the instant consumables. Just wondering how that is evolving for you in terms of distributor performance, opportunities to rationalize or consolidate some distributors; and just what you are seeing in terms of the return of that overall?

Denise Morrison - *Campbell Soup Company - President, CEO*

Are you talking about the immediate consumption business?

John Baumgartner - *Wells Fargo Securities - Analyst*

Yes.

Denise Morrison - *Campbell Soup Company - President, CEO*

Okay. Yes, when we moved away from the Coke distribution system, we created a network of distributors that could cover the United States that was largely DSD. Some of that worked and some of it didn't.

We course-corrected and added some broadline distributors to that network, and that is working much better today. In addition, we had our foodservice salesforce responsible for managing those distributors. We have since moved the sales effort to our retail salesforce to not only motivate the distributors from a supply standpoint but also to have end-user customer coverage, to create demand.

We have also supplemented that with some broker support for store work. So we believe with this more push/pull model we set ourselves up for better results.

Finally, we are introducing more products in the range that distributors have to work with. In the past, they had V8 red juice, they had a couple SKUs of Splash, and a little bit of V8 V-Fusion. Today, they have that plus the V8 veggie blends and singleserve, V8 energy, and we have a pipeline of new products as well.

So we are very committed to immediate consumption. It's only 10% of our business today, and we know in a lot of beverage companies it is 50% and very profitable. So this is worth building and being patient and doing it the right way.

John Baumgartner - *Wells Fargo Securities - Analyst*

Thanks, Denise.

Operator

Akshay Jagdale, KeyBanc.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

Good morning. My question is on your recent acquisitions, Bolthouse and Plum Organics. If you just take a step back and -- I would love to get an update on where those businesses are relative to when you bought them, and what your expectations were.

On Plum Organics, Kroger at a recent conference was raving about it. I know it is relatively small as a percentage of your overall sales, but seems like that one after some initial issues has really taken off.

So if you could give us an update on both of those, greatly appreciate it. Thank you.

Denise Morrison - *Campbell Soup Company - President, CEO*

Yes. I think overall, we are very pleased with our acquisitions of Bolthouse Farms and Plum Organics. We bought both of them to drive growth and they are delivering the growth.

Bolthouse Farms gets us into the Packaged Fresh category, where we can continue to build and bring new capabilities to that space. They have a great team.

Plum Organics, also a great team, is a window to Millennial parents and has told us a lot about organic food and really different ways of connecting with the next generation of consumers. So from a strategic standpoint and a performance standpoint, we are very pleased with both of these acquisitions.

Anthony DiSilvestro - *Campbell Soup Company - SVP, CFO*

Yes, if I can just add to that, to give a slightly -- the other side is we have seen a little bit of margin pressure in some of these businesses and are taking actions, as you can see. In Bolthouse Farms, there has been a little more trade pressure; and this quarter we did dial back on trade to improve the profitability. So it's been a little bit of pressure on the margin there.

And in Plum, we are going through a more extensive integration of some of the back- and front-office operations to improve the profitability of that business going forward as well.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

Okay, thank you. I will pass it on.

Operator

Alexia Howard, Bernstein.

Alexia Howard - *Bernstein - Analyst*

Good morning, everyone. Okay, just one quick data question and then another one. You mentioned that the shelf space allocated to premium products had gone up by about 4 feet. [How about] giving that some sort of weighted average distribution metric?

Is some of the inventory reduction a reduction in shelf space on your more mainstream brands? If so, how much is that reduction?

And then just on the promotions, there been a lot of discussions on this call. Do you have a US to why the promotional spending has become less effective over the last few quarters or so? Thank you very much, and I will pass it on.

Denise Morrison - *Campbell Soup Company - President, CEO*

We have not had reports of reduction of shelf space on our mainstream brands. We really believe that the inventory movements that we have talked about were movements in warehouse inventory due to buying less cases because of a reduction in promotion spending.

Then on the second part of the question, one of the things we experienced in the quarter was we were cycling the relaunch of Campbell's Homestyle RTS, where we had a huge ACT spend against that brand. And obviously, we did not repeat those levels of spending this time around.

Anthony DiSilvestro - *Campbell Soup Company - SVP, CFO*

Yes, think it's important on the promotional spending -- and maybe step back. In aggregate, we spend somewhere around $1.5 billion on trade promotion in a year. Overall, we feel that it's an effective spend and that we are getting a return.

When we talk about the changes, we're talking about $50 million reduction against $1.5 billion. So we are at the edges of it, and we continue to try and improve the effectiveness of that spend.

We drive our analytics to look for opportunities to reduce unprofitable trade deals. We look for opportunities to increase the effectiveness of trade deals. We look for opportunities to increase the promoted prices over time.

So I think we are talking about relatively minor refinements to the overall bigger program.

Denise Morrison - *Campbell Soup Company - President, CEO*

Yes, year-to-date, our trade spend is down a point.

Alexia Howard - *Bernstein - Analyst*

Great. Thank you very much. I will pass it on.

Operator

Jason English, Goldman Sachs.

Jason English - *Goldman Sachs - Analyst*

Hey, good morning. Hi, guys. Thank you for letting me ask a question. I wanted to follow up on Alexia's question, because your answer surprised me.

You said you haven't lost shelf space on your legacy products, but you have gained 4 feet on premium soups. Have you really gained 4 feet on average of shelf space for soup at retail?

Denise Morrison - *Campbell Soup Company - President, CEO*

That's what our figures show us. We track this very, very closely and that is the feedback.

Jason English - *Goldman Sachs - Analyst*

What we are seeing in terms of retail data is pretty sharp velocity declines on a sales per TDP or gross distribution point metric, sort of high single digit, low double digit. How sticky do you think that shelf space is?

Denise Morrison - *Campbell Soup Company - President, CEO*

Yes, I am not sure what data you are looking at.

Jason English - *Goldman Sachs - Analyst*

Nielsen data. Okay, I guess I could follow up with Jennifer on that just to get clarity on the data. Why don't I move on to one more then? It is back, building on Akshay's question about M&A, and it is more about the portfolio overall.

Over the last of years, Denise, you've embarked on a bit of a portfolio reconfiguration effort with some of the M&A. Are you happy with where the portfolio is today? Do you think it is the portfolio that will allow you to get back to your long-term algorithms?

Or should we expect M&A to remain in the forefront of your strategy as you continue to rebalance the portfolio? And if so, can you give us an update in terms of what you are thinking in terms of fit, size, timing, etc.?

Denise Morrison - *Campbell Soup Company - President, CEO*

Yes, I think we have made good progress in terms of the reshaping of our portfolio and pushing into faster growing spaces with the three acquisitions that we made and with the divestiture of the Europe Simple Meals business. I do believe that we need more M&A, although we are very willing to be patient, because deals need to create shareholder value. So we are very disciplined in our approach there.

Jason English - *Goldman Sachs - Analyst*

All right. Thank you very much. I will pass it on.

Jennifer Driscoll - *Campbell Soup Company - VP IR*

We will take one more question. We're coming up on the hour.

Anthony DiSilvestro - *Campbell Soup Company - SVP, CFO*

Just one more comment on the shelf space and stickiness question. As Denise mentioned, most of that gain has to do with our extension of our premium offering. Our Slow Kettle business is growing well above double digit in the marketplace, so we feel really good about the velocities we are seeing on that business.

And as you know, we've just launched a line of organic soups into that premium section as well. It is still early days on the organic thing; but we feel really good about the ACV distribution and shelving we have achieved to date on that one.

So we feel really good about our premium offering in soup on shelf.

Operator

David Driscoll, Citi Research.

David Driscoll - *Citi Research - Analyst*

Hi, good morning, and thanks for squeezing me in. Just a few loose ends. Anthony, can you quantify how much of the $200 million in cost savings are to be realized this year?

Then also for you, can you quantify for us what you expect the incentive compensation headwind to be for F16?

Anthony DiSilvestro - *Campbell Soup Company - SVP, CFO*

Yes. Let me take those one at a time. I can't quantify specifically on the $200 million; it gets a bit complex.

But what I can tell you, that between the cost-retainment efforts that we had in place before the $200 million initiative and inclusive of the $200 million initiative, we probably saved somewhere around $15 million in the quarter. Now when we get to Analyst Day will try to parse that apart, because we are still going through the analysis now. Figure out, well, how much is due to the change in travel policy, for example, or consultant policy, relative to the restrictions we had in place already on discretionary spending and headcount.

So it gets a bit difficult to do that. We will try to do that for you when we get to Analyst Day, and we will try to give you an outlook, looking ahead across the three years at what rate do we expect to realize the $200 million.

On the incentive comp, just to give you order of magnitude, if I take you all the way back to the beginning of the year, we said that incentive compensation would be a $0.09 headwind. Now we are saying it's a $0.04 headwind. That nickel is still hanging out there for next year is probably the way to think about it.

David Driscoll - *Citi Research - Analyst*

Okay. Then just following up on the fourth-quarter expectations, what drives EPS down so much, given your expectation for gross margin improvement and what sounds like pretty clearly additional cost savings?

Anthony DiSilvestro - *Campbell Soup Company - SVP, CFO*

Yes, let me give you a couple of components I think should help you. The one thing to remember is that last year has the extra week, right? So if you go back to the $0.49 that we reported on an adjusted basis, there is $0.08 in there that was quantified as the extra week.

The other thing we have said is that $0.04 compensation headwind all fits in the fourth quarter. And there is probably another penny of currency, so there is $0.13 of decline for you year-on-year.

David Driscoll - *Citi Research - Analyst*

Okay. I appreciate the help. Thanks, everyone, and have a great holiday weekend.

Jennifer Driscoll - *Campbell Soup Company - VP IR*

Thanks, David, and thanks, everyone, for joining our third-quarter earnings call and webcast. A full replay will be available for you about 2 hours after the call concludes. You can go online to see that or call 1-703-925-2533. The access code is 165-4351. You have until June 5, 2015, at midnight at which point we will move our earnings call strictly to the website, investor.campbellsoupcompany.com under News and Favorites. Mark it in your favorites. Just click on Recent Webcast and Presentations.

If you have further questions, please call me, Jennifer Driscoll, at 856-342-6081. If you are a reporter with questions, please call Carla Burigatto, Director of External Communications, at 856-342-3737.

We hope to see many of you at our Investor Day, July 22. That concludes today's program and you may now disconnect.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program and you may all disconnect. Have a great day, everyone.

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