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# Campbell Soup Co. (CPB)

Q1 2022 Earnings Call

## CORPORATE PARTICIPANTS

**Rebecca Gardy**

*Vice President-Investor Relations, Campbell Soup Co.*

**Mark A. Clouse**

*President, Chief Executive Officer & Director, Campbell Soup Co.*

**Mick J. Beekhuizen**

*Chief Financial Officer & Executive Vice President, Campbell Soup Co.*

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## OTHER PARTICIPANTS

**Andrew Lazar**

*Analyst, Barclays Capital, Inc.*

**Ken Goldman**

*Analyst, JPMorgan Securities LLC*

**Bryan D. Spillane**

*Analyst, Bank of America Securities*

**Michael S. Lavery**

*Analyst, Piper Sandler & Co.*

**Robert Moskow**

*Analyst, Credit Suisse Securities (USA) LLC*

**Christopher R. Growe**

*Analyst, Stifel, Nicolaus & Co., Inc.*

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good morning. My name is April, and I will be your conference operator today. At this time, I would like to welcome everyone to the Campbell Soup First Quarter Fiscal 2022 Earnings Conference Call. Today's call is being recorded. All participants will be in a listen-only mode until the formal question-and-answer portion of the call. Thank you.

With that, I would like to hand the conference over to your host, Ms. Rebecca Gardy. Ms. Gardy, you may begin your conference.

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**Rebecca Gardy**

*Vice President-Investor Relations, Campbell Soup Co.*

Good morning, and welcome to Campbell's First Quarter Fiscal 2022 Earnings Conference Call. I am Rebecca Gardy, Head of Investor Relations at Campbell Soup Company. Joining me today are Mark Clouse, Campbell's President and Chief Executive Officer; and Mick Beekhuizen, Campbell's Chief Financial Officer.

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

On our call today we will make forward-looking statements which reflect our current expectations. These statements rely on assumptions and estimates which could be inaccurate and are subject to risk. Please refer to slide 3 or our SEC filings for a list of factors that could cause our actual results to vary materially from those anticipated in forward-looking statements.

Because we use non-GAAP measures, we have provided a reconciliation of each of these measures to the most directly comparable GAAP measure in the appendix of this presentation. As stated in the release, from this quarter onwards, adjusted net earnings will exclude unrealized mark-to-market gains and losses on outstanding undesignated commodity hedges, until such time that the related exposure impacts operating results. Accordingly, fiscal 2021 adjusted results and guidance for adjusted EBIT and adjusted EPS growth rates reflect this change.

Also beginning this fiscal year, the foodservice and Canadian business formally included in the Snacks segment is now managed as part of the Meals and Beverages segment. Segment results have been adjusted retrospectively to reflect this change. For additional information on these updates, please refer to today's Form 8-K.

On slide 4, you'll see today's agenda. Mark will share his overall thoughts on our first quarter performance as well as in-market performance by division. Mick will discuss the financial results of the quarter in more detail and then review our guidance for the full year fiscal 2022.

And with that, I'm pleased to turn the call over to Mark.

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## Mark A. Clouse

*President, Chief Executive Officer & Director, Campbell Soup Co.*

Thanks, Rebecca. Good morning, and welcome to our first quarter earnings call for fiscal year 2022. As you saw in our press release, we reported solid performance in the quarter, especially when compared to the significant growth in the prior year and considering the rapidly evolving macro environment in which we currently operate. Organic net sales were down 4% for the quarter, driven by the expected lapping of prior-year retailer inventory replenishment as well as constrained supply in the current quarter.

We were, however, up 5% versus fiscal 2020 and consumption was up 2% versus prior year and up 9% versus two years ago, signaling strong persistent consumer demand. This dynamic resulted in a 6-point difference in net sales versus consumption in measured channels, a relationship we do not expect to continue through the remainder of the year.

Like many of our competitors and customers, we face supply chain pressures, particularly around labor constraints and transportation capacity, and our net sales results reflect those pressures. I am very proud of how our teams navigated costs related to this volatility. Their strong execution combined with effective pricing actions across both segments led to adjusted EBIT and adjusted EPS results consistent with our expectations and in line or ahead of two years ago.

On slide 7, with in-market demand remaining strong across both of our segments and the pricing actions we announced at the end of our prior fiscal year now reflected on-shelf, we feel confident about the outlook for the full fiscal year. We recently announced additional inflation-justified pricing actions to offset continuing increases in ingredient and packaging costs, logistics and labor. This second round of pricing should be effective in January and evident on-shelf in the third quarter. This will result in some added pressure in Q2 as pricing catches up with more recent inflation, but moving into the second half, we expect margin progress and earnings recovery as we use all of our available mitigation tools.

To address labor challenges in our network, we have taken specific actions and see early signs of improvement, such as increased onboarding, lower absenteeism and improved retention. We've seen a recent uptick in the

volume produced across the plants and we expect to begin to rebuild our inventories in the second quarter, but not fully recover until the second half.

Our ingredient and packaging spend, we are now over 85% covered, thereby reducing the variability in the upcoming quarters while we continue to deliver on our supply chain productivity improvements and our cost savings initiatives. In addition, we've made selective supply-related reductions in marketing and selling investments in the first quarter, which we expect to reverse and fully return to targeted levels as we move into the second half of the year.

Labor and supply challenges are impacting certain brands to a greater extent than others, creating some short-term share and consumption pressure. We expect this to be evident particularly through the second quarter as we cycle through recovery on labor and supply. With the strength of our brands and the share gains that have been so consistent and broadened our business over the last two years, we remain very confident that share positions will improve once we return to full capacity and investment in the second half of the fiscal year.

Turning to our Meals and Beverages division, I continue to be pleased by the underlying health of the portfolio and the performance of the brands. Organic net sales were down 6% versus prior year, lapping 11% growth in the prior year and up 5% versus fiscal 2020. Consumption, though flat year-over-year, was up 9% versus two years ago, reflecting the strength of demand for our products.

Turning to Soup on slide 10, our Win in Soup strategy continues to show positive results. We retained households and held share in the quarter. More people are participating and remaining in the soup category than pre-pandemic levels. Household penetration on ready-to-serve, condensed eating and Swanson broth are all ahead of the prior year. Additionally, compared to prior year, the dollar spent per buyer increased as our pricing actions took effect while volume per buyer remained flat reflecting the health, relevance and sustained momentum of our brands.

These compelling data points provide evidence that we are retaining our expanded consumer base, despite consumer mobility increasing, returning competition and our inflation-driven higher price points. U.S. soup consumption grew 2% over elevated levels in the prior year, bringing growth versus two years ago to 9%. Repeat rates and household penetration remained ahead of two years ago on Pacific Foods, ready-to-serve, condensed and Swanson broth.

Condensed dollar share was down slightly in the quarter. However, we continue to be encouraged by evidence that quick scratch cooking behavior continues. In our consumer tracking studies, more than a third of the people surveyed indicated that they cooked more compared to the prior month. Additionally, we are seeing the need for quicker meal preparation as consumers shift to hybrid work arrangements, leading to the need for quicker lunches while working from home and preparing dinners after returning from the workplace. This is driving an overall increase in our eating share, interestingly with our strongest growth in condensed eating coming from millennials.

As you may have noted, in more recent periods, we are seeing some recovery of private label in the condensed segment. This is not unexpected given their recovery from an extended period of supply constraints. It's important to note our two-year share gains remain very strong and we remain very confident in our overall competitive position versus private label as we move forward with continued strong support and programming.

Ready-to-serve increased share in the quarter, including over 3 points of share gains among millennials. Within ready-to-serve, Chunky had a very strong quarter, increasing consumption 8% on top of 2% growth in the prior-

year quarter and grew share by 0.6 points versus prior year. This is despite elevated promotional levels from competition.

On Swanson broth, we also grew share by 1.6 points, representing the third consecutive quarter of growth as supply recovery continued. Our Pacific Foods growth engine delivered its eighth consecutive quarter of holding or growing share, driven by sustained momentum on broth, despite remaining supply challenges due to labor pressures paired with high demand.

Turning to sauces, Prego remained the number one share leader for 30 straight months. However, short-term material availability is adding pressure on supply and creating more recent pressure on shares, which we expect to improve as we fully recover on inventory in the second half. Pace share began to improve in Q1 and grew households compared to prior year. We see Pace continuing to improve throughout the year.

I want to conclude my comments on meals and beverage by highlighting an important underlying trend. Across the meals and beverage portfolio, we continued to show strong performance with younger households. The percentage of buyers under the age of 35 has increased versus the prior-year quarter on nearly all key brands. Specifically on U.S. soup, the percentage of buyers under 35 increased almost 2 points this quarter, and the average age of Campbell's soup consumers are getting younger.

The millennial cohort is the fastest-growing segment in condensed eating, ready-to-serve and broth. Importantly, as we look beyond the current short-term volatility and begin to assess the ability for meals and beverages to continue to contribute growth into the future, this dynamic is a very important indicator and supports our efforts to increase relevance with a new generation of consumers.

Turning to Snacks, organic net sales were down 1%, primarily due to labor-related supply constraints, but grew 4% compared to fiscal 2020. In-market performance was strong growing 5% over the prior-year quarter and 9% on a two-year basis. This dynamic has resulted in low levels of retail inventory that we're working on and expect to recover through the second half of the fiscal year.

Our power brands continue to fuel performance with in-market consumption growth of 6% this fiscal year and 13% on a two-year basis, driven by double-digit consumption growth across the majority of our brands. We are pleased to see repeat rates on all eight power brands ahead of the prior year and compared to fiscal 2020.

Goldfish performed very well in the quarter, increasing share by 0.5 point and growing consumption high-single digits versus prior year, behind strong marketing activation, improved performance in multi-packs and continued successful limited-edition flavor innovations, resulting in improved base velocities and increased household penetration. We are winning with consumers, gaining share and driving significant consumption increases.

Innovation continued to be a key growth driver with limited-edition Goldfish Jalapeño Popper being the number one velocity new item launched in the cracker category in the quarter, marking the second quarter in a row we achieved this metric with our limited-edition flavor innovations. We also continued to increase the relevance of this brand and broaden its appeal beyond our traditional kids audience, with 60% of new buyers being households without kids.

We continued to drive share growth on other brands as well, including Snack Factory pretzel crisps by 2.5 points, Kettle Brand potato chips by more than 1 point and Cape Cod potato chips 2.6 points. However, as previously mentioned, labor availability on certain snack segments is putting pressure on share in several areas, in particular cookies, Lance crackers, Late July and Snyder's of Hanover pretzels in the quarter. We are making good

progress on recovering, but do expect some of these headwinds to persist into Q2, more broadly recovering in the second half.

As I mentioned earlier, we continue to be pleased with the speed and progress we have made to address the executional pressures experienced last year. Although we will still lap a challenging Q2 as we deal with the macro environment, we expect a very strong second half of the year with progress on margins and shares. Given our solid first quarter results and their consistency with our expectations, as well as our line of sight to the balance of the fiscal year, we are reaffirming our full year guidance. Mick will provide more details in a moment.

As previously mentioned, while we expect to still have a difficult comparison in Q2, as we lap year-ago strength, and begin to recover on labor and supply pressures, we remain very confident in our expectations of positive second-half performance and momentum exiting the year. We look forward to sharing our strategy to unlock our longer term full growth potential next week at our Investor Day.

With that, let me turn it over to Mick to discuss our first quarter results in more detail.

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## Mick J. Beekhuizen

*Chief Financial Officer & Executive Vice President, Campbell Soup Co.*

Thanks, Mark. Good morning, everyone. Turning to slide 17, as Rebecca mentioned at the start of the call, from this quarter onward, we will exclude from adjusted net earnings unrealized mark-to-market gains and losses on outstanding undesignated commodity hedges until such time that the related exposure impacts operating results. Our adjusted financial results and guidance reflect this change.

For the first quarter, as we lapped 8% growth in the prior year, organic net sales declined 4% due to the anticipated cycling of year-ago retailer inventory recovery and supply pressures. The resulting year-over-year [ph] falling (00:15:39) decline more than offset the favorable impact of net pricing in the quarter.

As Mark highlighted earlier, consumer demand remained strong. In fact, in measured channels, it was 6 points above our total net sales performance. All said, this past quarter our organic net sales on a comparable basis were 5% higher compared to two years ago or the first fiscal quarter of 2020. Adjusted EBIT decreased 15% compared to prior year, but was 1% higher on a two-year basis despite the significant levels of inflation on ingredients, packaging, labor, warehousing and logistics. Our adjusted EBIT margin was 17.4% compared to 19.5% in the prior year, and slightly down from fiscal 2020. Adjusted EPS from continuing operations decreased \$0.12 or 12% versus prior year to \$0.89 per share but remains well ahead of fiscal 2020.

On the next slide, I'll break down our net sales performance for the first quarter. As I mentioned, the impact of lapping, the post-COVID surge retailer inventory recovery and supply constraints largely related to industry-wide labor challenges along with select material constraints held back our ability to meet the continued elevated demand. The operations team continued to execute well in a challenging environment.

Organic net sales decreased 4% during the quarter, driven by a 6-point falling headwind which reflects lapping of the prior-year retailer inventory recovery and the before-mentioned supply constraints. Favorable pricing sales allowances drove a 4-point gain in the quarter which was partially offset by a 2-point headwind due to some spend back on promotional spending in the quarter, closer to pre-pandemic levels. The impact of the sale of Plum subtracted 1 point. All-in, our reported net sales declined 4% from the prior year.

Turning to slide 19, our first quarter adjusted gross margin decreased by 200 basis points from 34.5% last year to 32.5% this year. Mix had a negative impact of approximately 70 basis points on gross margin as we cycled last



year's retailer inventory recovery and favorable operating leverage. Net price realization drove a 190-basis point improvement due to the benefits of our recent pricing actions, partially offset by increased promotional spending.

Inflation and other factors had a negative impact of 470 basis points, with the majority of the decline driven by cost inflation, as overall input prices on a rate basis increased by approximately 6%. Along with other industry participants, we experienced significant inflation across all input cost categories, including ingredients, packaging, labor, warehousing and logistics. That said, our ongoing supply chain productivity program contributed 120 basis points to gross margin, largely offsetting these inflationary headwinds.

Our cost savings program, which is incremental to our ongoing supply chain productivity program, added 30 basis points to our gross margin. The previously described initiatives to mitigate inflation, highlighted on the next page, include price increases and trade optimization, supply chain productivity improvements and cost saving initiatives, and a continued focus on discretionary spending across the organization. We remain focused on inflation mitigation as we continue to expect core inflation for the year to be high-single digits with a more pronounced impact in the second half of fiscal 2022. As you saw on the previous page, the progress we made in the first quarter to mitigate these inflationary pressures reduced the impact to 130 basis points on our adjusted gross margin.

Moving to the next slide. We have continued to successfully deliver against our multiyear enterprise cost savings initiatives. This quarter, we achieved \$15 million in incremental year-over-year savings and remain on track to deliver our cumulative savings target of \$850 million by the end of fiscal year. We are working towards expanding our plan to \$1 billion and will share more details next week at our Investor Day.

Moving on to other operating items, marketing and selling expenses decreased \$38 million or 18% in the quarter on a year-over-year basis. This decrease was driven by lower advertising and consumer promotion expense, or A&C, and lower selling expenses. Although A&C declined 31% as investment was moderated to reflect supply pressure, we expect it to normalize as supply strengthens throughout the year. Overall, our marketing and selling expenses represented 7.6% of net sales during the quarter, a 130-basis point decrease compared to last year.

Adjusted administrative expenses increased \$17 million or 12%, largely due to expenses related to the settlement of certain legal claims as higher general administrative costs were largely offset by the benefits of cost savings initiatives. Adjusted administrative expenses represented 6.9% of net sales during the quarter, a 100-basis point increase compared to last year.

On slide 23, we are providing a total company adjusted EBIT bridge to summarize the key drivers of performance this quarter. As previously mentioned, adjusted EBIT declined 15% as the net sales decline and the 200-basis point gross margin contraction resulted in a \$36 million and \$44 million EBIT headwind respectively. Partially offsetting this was lower marketing and selling expenses contributing 130 basis points to our adjusted EBIT margin. This was a short-term action targeting areas where supply constraints were most significant, and we expect to fully return to targeted investment levels as soon as labor is in place and supply recovers.

Higher adjusted administrative and R&D expenses had a negative impact of 110 basis points and lower adjusted other income had a 30-basis point impact. Overall, our adjusted EBIT margin decreased year-over-year by 210 basis points to 17.4%. The following chart breaks down our adjusted EPS change between our operating performance and below-the-line items. A \$0.17 impact of lower adjusted EBIT was partially offset by a \$0.02 favorable impact from lower interest expense and a \$0.04 impact of lower adjusted taxes due to the favorable resolution of several tax matters in the quarter. This resulted in better-than-expected adjusted EPS of \$0.89, which was down \$0.12 per share compared to the prior year.

Turning to the segments. In Meals and Beverages, organic net sales decreased 6% as favorable price and sales allowances in the quarter were more than offset by volume declines across US retail products, including V8 beverages, Prego pasta sauces and U.S. soup as well as in Canada. Volume decreased primarily as a result of cycling the retailer inventory recovery in the prior-year quarter, and due to supply constraints, increased promotional spending relative to moderated levels in the prior year, partially offset the impact of recent price increases. Sales of U.S. soup decreased 2%, cycling a 21% increase in the prior-year quarter.

Operating earnings for Meals and Beverages decreased 17% to \$280 million. The decrease was primarily due to a lower gross margin and sales volume declines, partially offset by lower marketing and selling expenses. The lower gross margin resulted from higher cost inflation, higher levels of promotional spending, higher other supply chain costs and unfavorable product mix, partially offset by the benefits of recent pricing actions and supply chain productivity improvements. Overall, within our Meals and Beverages division, the first quarter operating margin decreased year-over-year by 260 basis points to 22.1%.

Within Snacks, organic net sales decreased 1% to \$1 billion as favorable price and sales allowances were more than offset by volume declines and increased promotional spending compared to moderated levels in the prior-year quarter. Declines in partner brands, Pop Secret popcorn driven by elevated prior-year demand, and Late July snacks due to supply pressures were partially offset by gains in Goldfish crackers and Pepperidge Farm cookies. Sales of power brands increased 3%.

Operating earnings for Snacks decreased 5% for the quarter, driven by increased administrative expenses due to the settlement of certain legal claims and a slightly lower gross margin partially offset by lower marketing and selling expenses. The slight decline in gross margin resulted from higher cost inflation, unfavorable product mix and higher level of promotional spending, largely offset by the benefits of recent pricing actions, supply chain productivity improvements and cost savings initiatives and lower other supply chain costs. Overall, within our Snacks division, first quarter operating margin decreased year-over-year by 60 basis points to 13.2%.

I'll now turn to cash flow and liquidity. Fiscal 2022 cash flow from operations increased from \$180 million in the prior year to \$288 million, primarily due to lower working capital-related outflows, mostly from accounts payable and accrued liabilities, partially offset by lower cash earnings. Our year-to-date cash outflows for investing activities were reflective of the cash outlay for capital expenditures of \$69 million, which was comparable to prior year.

In light of the current operating environment, we are reducing our planned full-year capital expenditures from \$330 million to approximately \$300 million for fiscal 2022. Our year-to-date cash outflows for financing activities were \$220 million, a vast majority of which, or \$179 million, represented the return of capital to our shareholders, including \$160 million of dividends paid and \$63 million of share repurchases during the quarter. At the end of the first quarter, we had approximately \$475 million remaining under the current \$500 million strategic share repurchase program. We also have a \$250 million anti-dilutive share repurchase program, of which approximately \$176 million is remaining. We ended the first quarter with cash and cash equivalents of \$69 million.

Turning to slide 28, as covered earlier, adjusted net earnings now excludes unrealized mark-to-market gains and losses on outstanding undesignated commodity hedges, and the guidance for adjusted EBIT and adjusted EPS growth rates reflect this change. We continue to expect full year fiscal 2022 net sales, adjusted EBIT and adjusted EPS performance to be consistent with the guidance we provided during our fiscal year-end earnings call. Overall, we expect accelerating inflationary pressures and higher labor-related costs to be partially mitigated with



sustained in-market momentum, well-executed pricing and planned productivity initiatives as well as our cost savings program.

Although we will be lapping strong prior-year results in the second quarter, we expect top line performance to improve sequentially year-over-year as supply begins to recover. However, with respect to margin, we expect continued pressure driven by additional core inflation across commodities and higher labor-related costs without the benefit of our second wave of pricing which will not be in place until the end of the second quarter. As we move into the second half of the year, we expect our inflation mitigation actions collectively, along with the continued recovery of labor, to result in margin progress and earnings recovery through the year.

For the full year, we expect organic net sales to be minus 1% to plus 1%, adjusted EBIT of minus 4.5% to minus 1.5%, and adjusted EPS of minus 4% to flat versus the adjusted fiscal 2021 results. The sale of Plum is estimated to have an impact of 1 percentage point on fiscal 2022 net sales. Overall, we had a positive start to the fiscal year, which was generally aligned with our expectations, thanks to all the hard work by our teams. I'm truly grateful for their continued dedication and commitment and look forward to sharing our strategy to unlock our full growth potential at our Investor Day next week.

We will now turn it over to the operator to take your questions. Thank you.

## QUESTION AND ANSWER SECTION

**Operator:** [Operator Instructions] And your first question comes from Andrew Lazar with Barclays.

**Andrew Lazar**

*Analyst, Barclays Capital, Inc.*

Good morning, everybody.

Q

**Mark A. Clouse**

*President, Chief Executive Officer & Director, Campbell Soup Co.*

Hey, Andrew. Good morning.

A

**Andrew Lazar**

*Analyst, Barclays Capital, Inc.*

Hey there. Thanks for the question. I guess I wanted to start off a little bit. The quarter came in a little bit differently than, I think, a bunch of people had modeled. It sounds to me like sales were more broadly in line with your expectations and maybe consensus didn't sort of fully take into account the severity of the year-ago inventory replenishment and such, but the gross margin contraction was certainly less severe than we modeled, so I'm trying to get a sense whether this was better than your sort of internal expectations. And if so, what drove that? And it sounds to me like your expectation is for year-over-year margin compression to be worse in 2Q than 1Q, and I just want to make sure I'm sort of hearing that correctly and perhaps what were the key drivers there. Thanks so much.

Q

**Mark A. Clouse**

*President, Chief Executive Officer & Director, Campbell Soup Co.*

A

Sure. Yeah, thanks, Andrew. I'd say generally the results came in pretty aligned with our expectations. As we had pointed out in the Q4 earnings, we had a pretty significant lap of retail inventory replenishment as we were kind of, if you remember at that time, coming out of what I would describe as kind of the initial surge – first few quarters of surge of COVID, and we had a lot of recovery, especially in our Meals and Beverages business which in the first quarter a year ago was up 11%. Soup was up 21%, and that's what we were lapping and so we generally expected that, and it came in fairly consistent.

I do think on the supply side, especially as it related to Snacks, there was a little more pressure than we probably expected as labor was a bit more significant. I think the good news is we've taken a lot of corrective actions, especially over the last 30 to 60 days and we're seeing real progress, so our vacancy rates are down about 30% from where they were a month or so ago, and we expect that to continue to progress as we go into the second quarter and then more completely, I'd say, in the second half. So top line pretty close, a little more pressure on supply.

On the gross margin side, I feel great about how the team is navigating this moment. It's, as you know, a lot of moving parts as you go into trying to predict what these quarters are going to entail, and I think we've done a very good job executing both on our pricing strategy as well as our productivity and the performance of the vast majority of our plants reflecting again just a terrific job by a lot of those frontline workers that have been out there for a long time working very, very hard. We did a very good job, and it was pretty close to what we expected on margins. I think our EPS was a little bit better as we did see some tax favorability that we do not think will repeat throughout the year, but I think a little bit of upside there. Everything else pretty close to where we expected.

I do think you're hearing us right as it relates to Q2. I think the dynamic you should expect there is some recovery within our supply, which should help a better comp to a year ago on top line. I still think some pressure as we recover, but certainly better than the 4% that we saw in Q1. I think on margin, you're right. The dynamic that you see there is kind of the ramp up of inflation into the second quarter. With our second wave of pricing, we feel very good about that. We've communicated very justified in the face of inflation, but not going to be in place until we get to the very end of Q2 and into January.

And that's why, as we've said a couple different times, and both Mick and I in our prepared remarks today, we do expect Q2 to be a tough both comp as well as some of this dynamic on pricing and inflation, but as you get to the back half of the year, most of those elements will come into a more positive posture, and as we look at the back half, we're feeling very good about the combination of pricing, productivity, our enterprise cost savings, all of that coming together for a fairly positive outlook and one that we think will help us really build momentum into the back half as we exit the year.

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**Andrew Lazar**

*Analyst, Barclays Capital, Inc.*

Q

Thanks for that. And then just briefly, I guess how are you feeling the company is positioned around heading into sort of the core, if you will, or the teeth of soup season, with respect to retailer's ability to supply what you think the demand will be, the ability to be at your levels of – expected levels of promotional activity in the market that you would normally hope to have, the kind of pressure in the market at this time of year? Are you at a point where you feel like the soup season can be somewhat more normal in that regard with respect to, like again, retailer activity and not being at any sort of relative disadvantage, let's say, to competitors in the market for whatever reason?

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**Mark A. Clouse**

*President, Chief Executive Officer & Director, Campbell Soup Co.*

A

Yeah, I think a couple of things in that question that are interesting. I think the first thing I would just say is the good news is, although we do have supply constraints in certain areas, they tend not to be, right now, in our soup and our core broth businesses, which are obviously very, very important as we go into this kind of back half of the holiday season and into soup season. So we're feeling good on supply there. The team's done a really good job in continuing to build capacity. Execution has been very good in those facilities, and so we're feeling pretty good about our ability to supply into the season.

I also feel good about the programming that we have. We've got some good innovation coming in in a couple areas. The execution on the marketing side for both our Chunky business as well as our condensed soup business has been very, very good. I do think, though, kind of on the back end of your question, I do think it'll be a competitive environment, as we had expected or anticipated, and as I mentioned earlier, private label is a little bit more prevalent. I'm not worried about it, but it is going to add a little bit of pressure as we've seen them a little bit more broadly speaking absent for a while and they'll be back in the mix and you see a little bit of that in the shares now. And I think ready-to-eat soup is always a pretty competitive segment and I certainly wouldn't expect that to change right now, but I feel very good about how we're positioned and how we're set up going into the kind of heart of the season and I do think, from a supply standpoint, far more consistent with a normal kind of level playing field. So looking forward to that part of it for sure.

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**Andrew Lazar**

*Analyst, Barclays Capital, Inc.*

Thanks so much. Looking forward to next week.

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**Mark A. Clouse**

*President, Chief Executive Officer & Director, Campbell Soup Co.*

Yeah, us too.

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**Operator:** Your next question is from Ken Goldman with JPMorgan.

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**Ken Goldman**

*Analyst, JPMorgan Securities LLC*

Hi. Thanks so much.

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**Mark A. Clouse**

*President, Chief Executive Officer & Director, Campbell Soup Co.*

Hey, Ken.

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**Ken Goldman**

*Analyst, JPMorgan Securities LLC*

First question, there's obviously been a strong tailwind over the last couple of years across food at home from heightened snack benefits. I'm just curious if you can, A, refresh us on how exposed your general sales base is to snack versus maybe the industry average and to what extent your guidance or your thought process, I guess, factors a potential reversal of this tailwind as the level of benefits fade. And I know there's a lot of unknowns here, so I'm not looking for quantification, I'm just trying to get a general sense of how you see it.

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**Mark A. Clouse**

*President, Chief Executive Officer & Director, Campbell Soup Co.*

Yeah, it's interesting. We've talked about this a little bit before, but we are, I think, somewhat a unique portfolio, in the sense that we have kind of this almost duality of benefit where economic factors more broadly and certainly SNAP I'd put into that bucket, where we have puts and takes going kind of both ways, so you tend to see what I think a lot of people are referring to or talking about which is pressure to perhaps trade down as those benefits move away or that just lower discretionary spend in general, does that impact our snacking business or some of the other segments we're in and there is a little bit of that dynamic that I think we've modeled as we look at the balance of the year, but we also do well on the flip side where people have to be a little bit more pragmatic in decision-making or they may be trading down from other categories into a category like soup as an example.

And traditionally speaking, one of the last things to always come off the list are some of the comfort items that we have in our snacking bundle and so I think although there will be some puts and takes, I feel pretty good about the balance of how our portfolio holds up in that kind of economic dynamic and profile. And as you rightfully said, it's a little bit – given the duration of this period, it's a little bit of new territory that we're watching very, very closely and trying to make sure that those expectations are consistent with what we're seeing, but we've put a lot of thought into that in trying to reflect that in our outlook for the balance of the year, but I think overall, I'd say a fairly balanced outlook.

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**Ken Goldman**

*Analyst, JPMorgan Securities LLC*

Q

Got it. Thank you for that. And then a quick clarification. I wanted to ask about the A&C, a little bit of a reduction in the first half, you talked about the second half picking up again. Is the message that the annual A&C spend will still be the same and that you'll just move or shift some of 1H's spending into the second half or is the message sort of, yeah, things will pick up in the back half, but maybe we won't get all the way back to what we thought for the year? Just trying to get a better understanding there. Thank you.

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**Mark A. Clouse**

*President, Chief Executive Officer & Director, Campbell Soup Co.*

A

Yeah, I think I'll give you the Q1 kind of explanation first because I think that's important and then I'll let Mick kind of give you an outlook for the year, but as we navigated through Q1, we anticipated that we were going to have some supply challenges in select areas, and so although you see a decline in the first quarter, it's fairly surgical in nature. It really is against the places where we knew that we were going to be in a position where it was going to be a little bit harder to meet demand.

At the same time, what we don't want to do is go below certain threshold levels that are going to put in any way, shape or form at jeopardy the progress that we've made in kind of the first kind of acquiring, but more importantly the retention of a lot of these incremental households, and so even in Q1, on business – important businesses like Goldfish or soup, Chunky in particular, if you haven't seen our Chunky ads, I'm not sure you've had any media on, but it's been a really effective, as you heard in our shares and we want to make sure that we keep the pressure on there.

I do think as supply comes back fully and as we roll through the balance of the year, you'll see it more as a return to normality, and just to put that in perspective, our marketing and sales in the first quarter was right around 8% of net sales. We would prefer that from an ongoing basis to be in the 9% to 10% range and I think that's closer to what you'll see as we go forward through the year, but, Mick, maybe you can give a little bit of color on that outlook.

**Mick J. Beekhuizen**

*Chief Financial Officer & Executive Vice President, Campbell Soup Co.*

A

Yeah, so the only thing that I'd add is that if you look at kind of the phasing throughout the year, of course from a year-over-year perspective, this quarter is down. There might be a little bit of phasing in the other quarters, but overall it will be much more in line versus the prior year. I do expect as a result what Mark is describing the range between 9% to 10%, it'll probably be a little bit closer to the lower end of that for the full year.

**Ken Goldman**

*Analyst, JPMorgan Securities LLC*

Q

Great. Thanks so much.

**Operator:** Your next question is from Bryan Spillane with Bank of America.

**Bryan D. Spillane**

*Analyst, Bank of America Securities*

Q

Hey. Good morning, everyone.

**Mark A. Clouse**

*President, Chief Executive Officer & Director, Campbell Soup Co.*

A

Hi, Bryan.

**Bryan D. Spillane**

*Analyst, Bank of America Securities*

Q

So, first one for me, just quick on CapEx, bringing the capital spending expectation down for the year, just what's underneath that? And are we going to be shifting more of that CapEx, I guess, out to the out years?

**Mark A. Clouse**

*President, Chief Executive Officer & Director, Campbell Soup Co.*

A

[ph] Go ahead, Mick. Mick is going to take that one (00:42:48).

**Mick J. Beekhuizen**

*Chief Financial Officer & Executive Vice President, Campbell Soup Co.*

A

Yeah, so maybe quickly on that, so first of all, we're obviously still adjusting, right, to our – to the overall operating environment, and as Mark also described earlier, a big focus on making sure that we can fulfill demand and that we continue to focus on the supply. So as we refined, kind of going into this year, our capital outlook, we thought it's more prudent to be closer to the \$300 million. There is obviously also a continuous underlying focus of the organization making sure that we get the right return on capital, and I think the organization has done a great job on continuing to make sure that that's the case. I do expect, to your underlying question of shifting – some of that shifting into the future, listen, a lot of these are projects that we believe that help us, that help the overall business, so I do expect that some of this is then shifting into out years.

**Mark A. Clouse**

*President, Chief Executive Officer & Director, Campbell Soup Co.*

A

And, Bryan, we'll give you a little more color on that at Investor Day as we talk a little bit about things such as the Snacks margin roadmap and what do we see. I think the other thing that I just would say is that we've also, I think,

in 2021, got a good sense for where our bandwidth needs to be relative to what our capacity for execution is, and as we kind of phase projects appropriately, I think you'll see a little bit of that reflected in this as well, but it certainly does not reflect any kind of lack of confidence and the ability to invest in the business. We've got projects that we feel really good about going forward, a terrific pipeline and we'll talk, like I said, more about that as we get into the longer term outlook next week.

**Bryan D. Spillane***Analyst, Bank of America Securities*

Q

Okay. And then – thanks for that. And then just maybe just a quick follow-up on the commentary about price increases. Maybe on the last earnings call in the Q&A, you talked about – or the discussion was around, level of pricing in your fiscal second half would be in the ballpark of or in the neighborhood of 5% to 6%. It sounds like now there is some incremental pricing, right, so additional pricing actions I guess that you're planning now versus maybe what you were expecting back in the last earnings call. So just want to try to get a sense of magnitude just what we're looking at in the back half of the year would be helpful.

**Mark A. Clouse***President, Chief Executive Officer & Director, Campbell Soup Co.*

A

Yeah, Bryan, the answer to that is, when we kind of quoted that middle-single-digit or mid-single-digit pricing, if you remember at that time, we had already gained a fair amount of visibility into inflation that is the inflation we're talking about now, and so we announced – the second wave of pricing we're talking about now, we announced I'd say over a month ago now and have been out talking about it, so we, in essence, contemplated a bit of that as a necessity as we were already looking at the outlook for the balance of the year, so it's not a materially different number as it relates to the back half of the year. Perhaps a few puts and takes in different places.

Remember as I said too, what's really important is we navigate this as to be quite strategic in how we're working through these pricing actions, making sure that we're mindful of certain thresholds and this second wave that we have coming in January reflects that as well, so I would say there are some puts and takes from perhaps what we initially had in the plan, but generally speaking, overall, we're not materially different than we had expected to be there.

**Bryan D. Spillane***Analyst, Bank of America Securities*

Q

Okay. Great. Thank you.

**Operator:** Your next question is from Michael Lavery with Piper Sandler.

**Michael S. Lavery***Analyst, Piper Sandler & Co.*

Q

Good morning. Thank you.

**Mark A. Clouse***President, Chief Executive Officer & Director, Campbell Soup Co.*

A

Hi, Michael.



**Michael S. Lavery**

*Analyst, Piper Sandler & Co.*

Q

Yeah, just curious what your thinking is in your guidance relative to any potential impact from vaccine mandates, and they seem to be hitting some walls and so it's certainly not clear if they'll come through, but obviously you've called out labor pressure and costs. Just curious wherever that lands from the mandate side, how it would compare to what your plans factor in.

**Mark A. Clouse**

*President, Chief Executive Officer & Director, Campbell Soup Co.*

A

Yeah, I mean, we've anticipated kind of operating in a consistent environment to the one that we're operating now, and so that has a certain amount of pressure already factored in as it relates to constraints in labor, but also the protocols and a bit of the continued dynamic of the impact of COVID on our businesses. We did not anticipate a widespread mandate, but we did prepare for it, so at the same time, we've got kind of a variety of different scenarios. I think our guidance reflects kind of more consistent with where we are today, which does tend to look like the environment we're going to be in. Of course, we're hopeful that vaccination rates continue to go up and we're certainly doing everything we can to provide information and education for our teams. As you can imagine that we have quite the continuum of percent vaccinated depending on the facility and our network, but generally speaking, I think it's well represented in our outlook, and again I think kind of conservative and steady as you go as you get more information is probably the right way to manage through a little bit of this uncertain moment that we're in.

**Michael S. Lavery**

*Analyst, Piper Sandler & Co.*

Q

Oh, no, that's great. That's helpful. Thanks. And just – Ken stole my SNAP question, but a follow-up on it. For – the [ph] P-EBT piece (00:48:59), of course it's pretty well rolled off already and now sort of a couple months into that, and it's interesting because it's specifically families with kids that would have been receiving that and so just curious what, if anything, you feel like you're seeing already in terms of any response to that? And especially if it's maybe more kids-focused brand, have you seen any impact on anything in the last few weeks that might be related to that?

**Mark A. Clouse**

*President, Chief Executive Officer & Director, Campbell Soup Co.*

A

Yeah, I think from a broad macro view, we continue to see elevated levels of demand, and although we're in some cases lapping pretty healthy growth from a year ago and when you think about certain categories, that's why we continue to kind of look through this lens of two-year growth rates. They're very healthy across the board, and I think for us, it's more of a function of some of those macro behavioral trends that are, perhaps, bigger than some of the policy-impacted trends that are continuing to elevate demand.

We've talked about a lot this idea of the stability of in-home eating. Even as people are going back to work, a lot of companies, organizations in the hybrid model are still maintaining a portion of their work time at home, which is a huge correlation to our soup business and our snack business. In addition to that, even on the cooking side, it's changing, it's evolving a little bit from where it was in the heart of the pandemic to now where much more important in this particular moment is the speed of preparation. We've seen a very distinct move to very quick, how do I get dinner done in 15 minutes, actually 18 minutes, appears to be the kind of target for most consumers as we've done a lot of research on this, but that also plays quite well into our portfolio as a dynamic that's very, very helpful as you think about our condensed soup businesses like cream of mushroom, cream of chicken or Prego pasta sauces.

I think also, elasticity continues to be a lot more favorable than what we've seen historically, and so I think that, in addition to those macro trends, are what's keeping an elevated level on demand. I do think, as I said to Ken's answer, there are some places where you do see some movement, but I think on the kids brands in particular, brands like Goldfish, as an example, are very, very healthy. One of the stronger sustained periods we had, if you – from my comments earlier, we've continued to do very, very well, and what's really interesting on businesses like that is if you remember back in the pandemic, we were feeling a lot of pressure on the reduction on away-from-home snacking, so our portion packs or on-the-go packs.

What's interesting now is we've kind of held on to the bigger bulk pack demand, but we've also seen a resurgence in those portion packs as kids are going back-to-school and activities are starting to come back, so I think there's always a variety of drivers influencing it, but I would say more broadly, the pros are outweighing any of the cons and so the net of that all is a generally positive outlook as it relates to sustainment of elevated levels of demand going forward.

**Michael S. Lavery**

*Analyst, Piper Sandler & Co.*

Q

Really great color. Thanks for that, and looking forward to hearing more next week.

**Mark A. Clouse**

*President, Chief Executive Officer & Director, Campbell Soup Co.*

A

Yeah, great. We'll see you there.

**Operator:** Your next question is from Robert Moskow with Credit Suisse.

**Robert Moskow**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Hi. Thanks. Actually, a question for Mick.

**Mark A. Clouse**

*President, Chief Executive Officer & Director, Campbell Soup Co.*

A

Hi, Rob.

**Robert Moskow**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Hi. The inflation guidance that you're giving kind of points to escalating inflation throughout the year, and I think we talked about this last quarter also, but you are seeing some of these commodities leveling off on the food side, so can you give us some kind of like forward look? I don't know if it's possible, but at what point do you think your inflation will lap and turn closer to low-single-digit? And then maybe you can just give us a little more color as to why it keeps escalating during the year. Is it because of packaging contracts rolling over? Is it because of labor contracts that are going higher? What are the main drivers?

**Mick J. Beekhuizen**

*Chief Financial Officer & Executive Vice President, Campbell Soup Co.*

A

Yeah, it's a great question. You're absolutely right. So we are projecting high-single digits for inflation for the year. That's consistent with what we said previous quarters, so it's not a change compared to what our previous

expectation was, and it's very much in line with what we've been looking at for fiscal 2022 all along. If you look at, to your point, the underlying drivers there, you see about 6% in Q1, high-single-digits for the full year, so you do have that accelerating pattern throughout the year. Why is that? That's largely driven by the fact that obviously our fiscal year breaks over two calendar years and we have various contracts that reset in the second half of our fiscal year. So you see particularly in the January timeframe a lot of ingredient and pack contracts that are being reset and they are obviously reset of a different commodity environment that they previously were set at and that's what we are experiencing.

So as a result, various of these contracts are obviously for at least call it a calendar year basis, so we're experiencing that, I expect, throughout the next calendar year.

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**Mark A. Clouse**

*President, Chief Executive Officer & Director, Campbell Soup Co.*

Yeah.

A

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**Mick J. Beekhuizen**

*Chief Financial Officer & Executive Vice President, Campbell Soup Co.*

And maybe the other point to add to that is if you look at our overall coverage is we're probably currently about 85% covered, which is a little bit higher than typically, but because of the volatility in the current environment, [ph] we thought (00:55:09) that's prudent.

A

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**Mark A. Clouse**

*President, Chief Executive Officer & Director, Campbell Soup Co.*

Yeah, so maybe just two other small points to build on Mick's answer. One is how long do you think it is until we begin to lap and although I would say that's always a little bit tough to predict in the environment we're in right now, but as you can imagine, some of the contract elements that we're talking about that are on a calendar year, you have the natural kind of carryover into the first half of fiscal 2023 for us that would be that same contract. So as you think about relief going forward, and you could imagine too that in this kind of volatile environment, we're working really closely with suppliers to make sure that if there is a dramatic change that we can reflect that without having to necessarily wait 12 months to kind of revisit a contract. So we've created a lot of that dynamic that should help us be a little bit more nimble, but that's the dynamic that Mick's talking about.

A

But I just would say to counter that though, although I do, as we pointed out some pressure in Q2, even though you have that escalating inflation, you also have an escalation of our mitigating actions, and so as we look at the back half of the year, we actually feel very good about how we line up or position versus inflation, arguably better than we necessarily do in Q2 as we're in that kind of transitional moment, so although on the one hand there will be likely more inflation, I also fully expect us to be in a much better position to mitigate it and we're feeling very good and that's a big part of the confidence that we have in the balance of the year and why we're pointing to a more favorable back half.

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**Robert Moskow**

*Analyst, Credit Suisse Securities (USA) LLC*

Okay. Thank you.

Q

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**Operator:** Your next question is from Chris Grove with Stifel.

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**Christopher R. Growe**

*Analyst, Stifel, Nicolaus & Co., Inc.*

Hi. Good morning.

Q

**Mark A. Clouse**

*President, Chief Executive Officer & Director, Campbell Soup Co.*

Hey, Chris.

A

**Christopher R. Growe**

*Analyst, Stifel, Nicolaus & Co., Inc.*

Hi. I just had a quick question to be – kind of to do a follow-up on some of the earlier questions around pricing. In the second half of the year, if you think about pricing and other levers you have, the cost savings, can you offset inflation in that environment based on what you know today? Will the pricing be sufficient to help you achieve that?

Q

**Mark A. Clouse**

*President, Chief Executive Officer & Director, Campbell Soup Co.*

I think pricing in conjunction with the other variables, yes. We feel comfortable that we're in a very strong position to be able to cover that and to also be able to carry that forward kind of out of the year into the next fiscal year. So as I said before, I think what you have the benefit of in the second half is kind of all of those tools coming to bear, so even though the backdrop is higher inflation, we've got more of the pieces of the mitigation in place, and so, yeah, we look at the back half and we feel good about where we are. Also, of course, we're going to start lapping some easier comps that will just give the overall lower base benefit of being able to lap that, but, yeah, we're overall feeling good about that, Chris, going into the second half.

A

**Christopher R. Growe**

*Analyst, Stifel, Nicolaus & Co., Inc.*

Good. Yeah, that's helpful. Thank you. And a quick second question which is can you – have you attempted to quantify how much of the supply shortages hurt your sales in the quarter? And I guess I'd be curious related to that if there is, can you produce to demand in the second quarter? It sounds like you're going to be building inventory and it sounds like there's a lot of different circumstances by brand, but overall, what's the condition of the supply chain? And are those supply shortages to what degree they're hurting sales? Thank you.

Q

**Mark A. Clouse**

*President, Chief Executive Officer & Director, Campbell Soup Co.*

Yeah, great. I'm glad you asked that question because it'll allow me to give a little bit of color on a bit of the dynamic in Q2 as it relates to share, which I think is important. I mentioned it in my comments, but want to give you a little bit more flavor on that. So, essentially, what I would tell you is in the first quarter, you had a dynamic that we're certainly not unfamiliar with where we were going into the quarter with a fair amount of inventory, demand remained elevated, and so you saw a stronger consumption number. Now part of that again was the lap of the inventory component, but if you look at our top line, we were down about 4% versus year ago with in-market consumption of 2%, you have a little bit of unmeasured channel elements that are there, but let's more or less talk about 6-point delta between the two.

A

The way we see this is a little bit more – half to a little bit more than half was related to the inventory lap and then the balance was really supply, so in places that we had supply pressure, that's really anchored in a couple of

categories. A little bit of the labor issue that we talk about is not just our labor but some of our suppliers' labor, so you have some material pressure, so if I were to break the businesses apart a little bit and give you a little more detail, our Snacks business inherently is more labor intensive just the nature of the manufacturing, so a little bit more of that supply-related pressure is on our snack businesses and in particular several of our Snyder's-Lance businesses, so Late July we talked about as well as Snyder's of Hanover, and also pressure on our Lance sandwich crackers.

Pepperidge Farm, we're generally in a better position, although cookies is a little bit pressured as it is pretty labor-intensive as well, so those four categories are where we're seeing the pressure. On meals and beverage, it's much more about the material availability as it relates to certain parts of Prego and aluminum cans in particular on V8, and so that's where you see the pressure occurring.

As you go into Q2, labor is recovering and so we already see production levels going up as that labor moves into place. It is important to note that when we hire someone in a manufacturing role, it takes about four to six weeks for a new hire to begin to kind of deliver at an effectiveness level that allows us to really realize the additional labor, so it does take a little bit of time, but as we go into Q2, I think the dynamic you should expect is that we'll be recovering on inventory levels, recovering on our supply, probably taking us some time in certain areas, but what you will see is a little bit of short-term pressure on share and in-market consumption in a couple of the places where we have gotten lower on inventory and it's really those businesses that I just described.

We see it very short term in nature. That share pressure is not related to anything that is brand-driven, consumer demand-driven. It really is a very, very high correlation to where the supply is pressured. It's also – it happens to be where you're also a little bit lower on investment as we're managing through that, but as we come into the second half, we expect those to be back in a stronger position and a really healthy back half, and if you think about the last couple of years on our business, we've done very, very well and had made a major priority on driving growth and in-market performance, and that doesn't change even with a little bit of the bump that we expect here in the near term. And as we get through the balance of the year, we think a lot of great momentum as we exit 2022 and head into 2023 as well.

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**Christopher R. Growe**

*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Thank you.

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**Operator:** Ladies and gentlemen, this does conclude today's conference call. Thank you for participating. You may now disconnect.

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