CORPORATE PARTICIPANTS

Rebecca Gardy  
Senior Vice President & Chief Investor Relations Officer, Campbell Soup Co.

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

Carrie L. Anderson  
Executive Vice President & Chief Financial Officer, Campbell Soup Co.

OTHER PARTICIPANTS

Andrew Lazar  
Analyst, Barclays Capital, Inc.

Kenneth Goldman  
Analyst, JPMorgan Securities LLC

Peter T. Galbo  
Analyst, BofA Securities, Inc.

Michael S. Lavery  
Analyst, Piper Sandler & Co.

Jason English  
Analyst, Goldman Sachs & Co. LLC

MANAGEMENT DISCUSSION SECTION

Operator: Greetings, ladies and gentlemen, and welcome to the Campbell Soup Company Fourth Quarter Fiscal 2023 Earnings Conference Call. At this time, all participants are in listen-only mode. After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] As a reminder, this conference call is being recorded.

It's now my pleasure to introduce your host, Rebecca Gardy, Chief Investor Relations Officer. Please go ahead.

Rebecca Gardy  
Senior Vice President & Chief Investor Relations Officer, Campbell Soup Co.

Good morning, and welcome to Campbell's fourth quarter fiscal 2023 earnings conference call. I'm Rebecca Gardy, Chief Investor Relations Officer at Campbell. Joining me today are Mark Clouse, President and Chief Executive Officer; and Carrie Anderson, Chief Financial Officer. Today’s remarks have been prerecorded. Once we conclude the prepared remarks, we will transition to a live webcast Q&A session. For us to give as many participants as possible the opportunity to ask questions, we ask that you limit yourself to two questions. The slide deck and today’s earnings press release have been posted to the Investor Relations section on our website, campbellsoupcompany.com. Following the conclusion of the Q&A session, a replay of the webcast will be available at the same location, followed by a transcript of the call within 24 hours.

On our call today, we will make forward-looking statements, which reflect our current expectations. These statements rely on assumptions and estimates, which could be inaccurate and are subject to risk. Please refer to slide 3 of our presentation or our SEC filings for a list of factors that could cause our actual results to vary materially from those anticipated in the forward-looking statements.
Because we use non-GAAP measures, we have provided a reconciliation of each of these measures to the most directly comparable GAAP measure in the appendix of our presentation. On slide 4, you’ll see today’s agenda. Mark will share his overall thoughts on our fourth quarter and full year performance, as well as in-market performance by division. Carrie will then discuss the financial results of the quarter in more detail and review our guidance for the full fiscal year 2024.

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

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

Thanks, Rebecca. Good morning, everyone, and thank you for joining our fourth quarter fiscal 2023 earnings call. Speaking on behalf of Campbell’s management, I would like to extend our recognition of dedication and hard work demonstrated by our teams throughout this year. We delivered the fourth quarter consistent with our expectations, and for the full year, we delivered strong growth across all three key financial metrics, coming in well ahead of our initial expectations and advancing many of our strategic initiatives.

Collectively, we continued to solidify the foundation that has delivered consistent and dependable results over the past several years. Furthermore, our progress has set the stage for increased momentum in fiscal 2024 that we believe will result in broad-based growth and deliver compelling shareholder value creation.

Let me begin with the highlights of the fourth quarter. As expected, we delivered 5% organic net sales growth, led by inflation-driven net price realization and solid in-market performance, enabled by an advantaged supply chain and effective marketing and selling investments. Fourth quarter consumption increased 3% versus the prior year and 25% versus four years ago. As expected, we did experience declines in adjusted EBIT and adjusted EPS in the quarter, given our planned brand investments and the pension headwind, which we pointed out on prior earnings calls.

For the full year, we delivered double-digit organic net sales growth of 10% and strong adjusted EBIT growth of 5%. Adjusted EPS of $3, representing 5% growth versus prior year, was at the top end of our guidance range. As a reminder, the pension headwind was approximately $0.11 to adjusted EPS and 4 points of growth for the year.

Consumption for the full year increased 8% versus the prior year and reflected share growth across many brands. These strong results reflect the ongoing effective execution of our focused strategy along with the sustained consumer demand for our brands. We have strategically balanced the interplay between pricing and promotional frequency while enhancing the tremendous equity and differentiation of our brands. We also continued to invest in expanding capacity for the future and enhanced our capabilities in supply chain, marketing, sales and innovation.

Looking ahead to fiscal 2024, we’re excited about the next stage of Campbell’s growth. The Snacks business will continue to deliver on the value proposition of the Snyder’s-Lance acquisition with top line and margin building momentum. Our Meals & Beverage business will be further strengthened and diversified with the planned strategic acquisition of Sovos Brands, which will extend our portfolio into the ultra-distinctive sauces segment and provides significant growth opportunities. This combination will make Campbell as one of the most dependable growth-oriented names in food. Carrie will provide full fiscal 2024 guidance later in the call.

Before I review the division results, I’d like to provide some perspective on the current consumer landscape. We’ve spent a great deal of time analyzing the drivers and importantly, the potential implications going forward.
We see three factors currently putting some transitory pressure on category in-market results. These are primarily impacting our Meals & Beverage businesses and all influenced Q4 to some extent.

The first area is the residual effects of COVID surges from the summer of fiscal 2022. These surges notably benefited categories like soup in the prior year, particularly during the summer, a period which historically has lower sales. We expect this effect to continue into Q1 and greatly diminish as we approach the second quarter of fiscal 2024. Directionally, the impact of this factor contributed about 50% of the decline in soup in the fourth quarter. This dynamic likely helped mitigate price-driven elasticities in Q4 fiscal of 2022.

The next factor is lapping of double-digit pricing actions from a year ago. This was a dynamic we expected and one that likely will continue to be a headwind throughout fiscal 2024, but sequentially lessening in the second half of the year. We do also expect sequential volume improvement to mitigate this pricing headwind as we move into Q2 and the second half.

The third factor, and likely contributing to the limited volume recovery to-date, is the consumer behavior in response to ongoing economic uncertainty and prolonged inflation. First, consumers began prioritizing categories based on more immediate needs and value, leading to fewer categories in the shopper basket. This pattern of behavior resulted in a real focus on seasonal priorities and has, obviously, created a headwind on categories like soup in the summer. We expect our categories like soup, which is a top 10 category in the fall and winter, to increase in priority, and we're already seeing some early signs of improvement.

The second behavior is a growing shift to more value-driven stretchable meals, which has had a mixed effect on our business. It has undoubtedly been a positive driver on categories like pasta sauce and Condensed Cooking soups, as well as broth, while also adding pressure on categories like ready-to-eat soup. We expect this behavior to subside as inflation continues to moderate.

The positive news, as it pertains to our Snacks division, is that our brands consistently maintain a strong presence in consumers’ top categories throughout all seasons of the year. Moreover, our snack power brands have displayed remarkable resilience, as consumers, even while prioritizing value, continue to sustain their purchases across our differentiated portfolio. Broadly speaking, we see these dynamics as transitional in nature.

While we do anticipate the persistence of these dynamics in the near term, we're confident in the equity and the value of our brands within this environment. In fiscal 2024, we'll maintain our support of our brands and remain vigilant on value to ensure we remain competitive, but do not see this as a catalyst for dramatic shifts in promotional or margin-dilutive actions to chase volume or share.

Turning to our division results, our Meals & Beverages portfolio remains well positioned as consumers employ multiple strategies to stretch their food dollars. In the fourth quarter, we delivered organic net sales growth of 1%. As a reminder, the fourth quarter is the lightest in terms of seasonality for this business, and we're also wrapping strong performance of 7% organic net sales growth in the prior year, primarily driven by inflation-driven pricing and some of the COVID surges I mentioned earlier. While in-market consumption was down in the fourth quarter by 4%, we saw strong performance by Prego, up 5% and Pace up 7% and Pacific up 11%. Compared to pre-COVID levels, dollar consumption for the division was up 17% overall.

Diving more specifically into our Meals & Beverages portfolio, I wanted to highlight the progress we've made within several areas of our soup business. This year, we've refined our soup portfolio to establish distinct areas for growth and identified areas where scale and optimization will be more of the focus. The great news is our growth-
focused segments represent over two-thirds of our US soup business, and has consistently delivered strong growth and share results, even where private label is present.

Brands like our condensed icons, our Condensed Cooking soups, Chunky, Homestyle, and Pacific Soup are compelling areas of consumer relevance, even among younger households and continue to demonstrate long-term growth potential. They are also brands where our marketing and innovation efforts have been very effective. In the quarter, our shares in this portion of the business were essentially flat, and versus four years ago, we've gained 1.2 share points with consumption up 27%. We're confident in the trajectory of this business and are committed to continuing to fuel these segments going forward.

The optimized portion of our soup portfolio, which represents less than a third of our US soup business, has experienced recent share softness, and thus remains an area of opportunity for us. These are areas where the segments are a bit more commoditized or value sensitive, like broth. So, they have tended to be where private label or lower-cost options have sourced some share. The team remains vigilant in this segment of the portfolio, continuing to ensure we remain competitive without undermining any long-term profitability. Interestingly, this portion of the business represents only 14% of Meals & Beverages and is approximately 7% of Campbell's total net sales, and will become even smaller after the pending acquisition of the Sovos Brands business.

Turning to Snacks on slide 10, we finished the year strong with fourth quarter organic net sales up 9%, driven by our eight power brands. We maintained strong in-market momentum, growing consumption by 8% and 31% compared to four years ago, also driven by the strength of our power brands, which delivered double-digit dollar consumption for the fifth consecutive quarter. Overall, fiscal 2023 was another fantastic year for Snacks, with net sales growing at 13% and operating earnings growth at 24%. These results provide compelling proof that our strategic focus on highly differentiated and relevant brands is working and can lead to sustainable profitable growth.

The next slide highlights the impressive performance and continued growth of our power brands, which grew consumption 10% versus the prior year. On a four-year basis, consumption was up 39%, with all eight brands growing double digits in the quarter, while holding volume share. This illustrates the strength of our core portfolio and reflects the continuation of heightened consumer demand for snacking.

Turning to slide 12, our Snacks business has delivered tremendous growth over the past two years. The business has grown net sales at a 7% CAGR, with operating earnings growth at a 12% CAGR over a two-year period. In the last fiscal year, we drove a step-change in operating margin, growing from 13.1% in fiscal 2022 to 14.4% in fiscal 2023. This is consistent with our Snacks margin road map and gives us increased confidence that we'll continue to deliver on our long-term goals and show steady improvement in fiscal 2024, where we expect to be north of 15%.

I'm excited and very optimistic as we enter the new year with proven strategies and strong fundamentals and advantaged strong supply chain, and arguably, one of the most focused portfolio stories in the industry. Within Snacks, we continue to expect accelerated growth and to build on the margin trajectory from this year. And in Meals & Beverages, we expect to continue to strengthen the business with sequential and steady improvement throughout the year. This story will only be made stronger following the completion of the Sovos Brands acquisition, adding the most compelling growth story in food to the Campbell's portfolio. It's an exciting combination.
We understand and have planned for some short-term broad-based category dynamics in the early part of the year, especially in Q1. However, we have strong plans in place and are well positioned to gain momentum and deliver another strong year, adding further evidence of the transformation of the Campbell’s business.

With that, I'll pass it to Carrie, who will review our fourth quarter and full year results and present our fiscal 2024 outlook.

Carrie L. Anderson
Executive Vice President & Chief Financial Officer, Campbell Soup Co.

Thanks, Mark, and good morning, everyone. I'll begin with an overview of our fourth quarter results, which came in largely as expected with a mid-single digit organic net sales increase and an adjusted EBIT performance that reflected planned fourth quarter investments in sales and marketing, especially in our Snacks business and continued headwinds related to a non-operating item. Fourth quarter organic net sales increased 5% to nearly $2.1 billion, reflecting inflation-driven net price realization, partially offset by some unfavorable volume and mix.

Adjusted EBIT of $242 million was a 10% decrease to prior year, as higher adjusted gross profit was offset by planned investments in marketing and selling, and higher adjusted other expenses related to lower pension and postretirement benefit income. Adjusted EPS decreased 11% to $0.50, driven primarily by lower adjusted EBIT. The impact of lower pension and postretirement benefit income reduced adjusted EBIT margin by 40 basis points and adjusted EPS by $0.02 in the quarter.

We are pleased with our overall performance for the full year. Our fiscal year net sales results exceeded our initial guidance expectations provided a year ago, finishing the year with organic net sales growth of 10%, driven by higher net price realization. Adjusted EBIT grew 5% and adjusted earnings per share finished at $3, also up 5% and ahead of the top end of our initial expectation range, despite a $0.02 greater adjusted EPS impact than originally planned from pension and postretirement income. Overall, for the year, this non-operating item reduced full year adjusted EBIT by $44 million and adjusted EPS by $0.11.

Slide 17 summarizes the drivers of our fourth quarter net sales growth. Excluding the impact of the sale of the Emerald nuts business, organic net sales grew 5% in the quarter. We generated 10 percentage points of growth from inflation-driven net price realization. Volume and mix declined 5 percentage points across both divisions. Our fourth quarter adjusted gross profit margin of 30.6% was generally in line with Q3, with the year-over-year change in margin driven primarily by unfavorable volume and mix. As shown in the bridge, net price realization and productivity improvements more than offset cost inflation and other supply chain costs.

Moving to slide 19, our teams continued to successfully mitigate inflationary headwinds that averaged 12% for the year. We saw steady moderation as we moved through the quarters with Q4 core inflation finishing at 6% compared to a high of 18% in Q1. Fourth quarter's rate reflected improved trends in oils and flour, as well as improvement in logistics and transportation.

Net pricing averaged 13% for the full year, reflecting contributions from three waves of pricing aimed at offsetting double-digit inflation. We ended the year with a fourth quarter net pricing contribution of 10%, still benefiting from the impact of pricing waves three and four, with price wave three fully wrapped as of July. In addition to pricing, we continue to deploy a range of other levers to mitigate inflation, including supply chain productivity improvements and broader margin-enhancing initiatives, including a focus on discretionary spending across the organization.
We are pleased with the progress we have made on our cost savings initiatives. Through the fourth quarter, we have achieved $890 million of total savings under our multi-year cost savings program, inclusive of Snyder's-Lance synergies. We remain on track to deliver savings of $1 billion by the end of fiscal 2025.

Moving on to other operating items, adjusted marketing and selling expenses increased 9%, driven by higher advertising and consumer promotion expense, or A&C, which increased 23% compared to the prior year, and higher selling expenses, partially offset by increased benefits from cost savings initiatives. The increase in A&C this quarter was primarily driven by the planned increases in our Snacks division.

Overall, our adjusted marketing and selling expenses represented approximately 9% of net sales for the quarter and the full fiscal year. And adjusted administrative expenses increased by $11 million or 7% to $164 million due to higher general administrative cost and inflation, partially offset by increased benefits from cost saving initiatives.

As shown on slide 21, adjusted EBIT for the fourth quarter decreased 10%, primarily due to higher adjusted marketing and selling expenses, higher adjusted administrative expenses and higher adjusted other expenses related to lower pension and postretirement benefit income this year, partially offset by higher adjusted gross profit. Lower pension and postretirement benefit income this year drove an approximate $7 million impact to adjusted EBIT.

Overall, our adjusted EBIT margin decreased to 11.7% in the quarter, primarily driven by a lower adjusted gross profit margin, higher adjusted marketing and selling expenses, and the impact of lower pension and postretirement benefit income.

Turning to slide 22, adjusted EPS of $0.50 was down 11% or $0.06 per share compared to the prior year. This was primarily driven by the decrease in adjusted EBIT and slightly higher interest expense, partially offset by a lower adjusted effective tax rate and a reduction in the weighted average diluted shares outstanding.

Turning to the segments, in Meals & Beverage, fourth quarter organic net sales increased 1%, reflecting net price realization, partially offset by unfavorable volume and mix. Sales increases in foodservice and Prego pasta sauces were partially offset by declines in beverages, US soup and Canada. Sales of US soup decreased 2%, primarily due to declines in ready-to-serve soups, partially offset by strong increases in broth and modest increases in condensed.

Segment operating earnings in the quarter for Meals & Beverages decreased 18% to $132 million, primarily due to lower gross profit. Fourth quarter operating margin declined to 14.1%, driven by lower gross profit margin, which was largely due to higher cost inflation and other supply chain cost, as well as unfavorable mix between retail and foodservice, partially offset by net price realization and supply chain productivity improvements. For the fiscal year, segment operating margin declined to 18.2% compared to 19% in the comparable year-ago period.

In Snacks, fourth quarter organic net sales increased 9%, driven by sales of power brands, which were up 13%, and reflected net price realization, partially offset by modest unfavorable volume and mix. Segment operating earnings in the quarter increased 12% to $158 million, primarily due to higher gross profit, partially offset by higher marketing and selling expenses, as well as higher administrative expenses. Gross profit margin increased due to the impact of net price realization and supply chain productivity improvements, more than offsetting higher cost inflation and other supply chain cost and unfavorable volume and mix.
Overall, within our Snacks division, fourth quarter operating margin increased year-over-year by 60 basis points to 14%. For the fiscal year, we were pleased with our margin progress, posting a 130 basis point improvement to 14.4% compared to 13.1% in the prior year.

I'll now turn to our cash flow and liquidity. Fiscal 2023 cash flow from operations was $1.14 billion compared to $1.18 billion in the prior year, primarily due to changes in working capital, partially offset by higher cash earnings. In line with our commitment to return value to shareholders, we have returned nearly $590 million through dividends and share repurchases through this fiscal year. Cash outflows from investing activities reflected capital expenditures of $370 million, $128 million higher than in the prior year, as we invested in key growth areas, particularly in our Snacks division.

Our year-to-date cash outflows from financing activities were $723 million, including $447 million of dividends paid and $142 million of share repurchases. At the end of the quarter, we had approximately $301 million remaining under the current $500 million strategic share repurchase program and approximately $104 million remaining under our $250 million anti-dilutive share repurchase program.

Our balance sheet ended the fiscal year in a strong position, with net debt of $4.5 billion and with a net debt-to-adjusted EBITDA leverage ratio of 2.6 times, well below our targeted 3 times range. This puts us in great shape as we plan for the pending Sovos Brands acquisition. As of year-end, the company had approximately $189 million in cash and cash equivalents and approximately $1.85 billion available under its revolving credit facility, providing a significant excess liquidity and flexibility.

Turning to slide 26, let me walk you through our full year fiscal 2024 guidance. As a reminder, the sale of our Emerald's nuts business, which we divested in May of fiscal 2023, is estimated to reduce net sales by approximately 0.5 percentage point and have $0.01 per share dilutive impact in fiscal 2024. Additionally, the acquisition of Sovos Brands is expected to close by the end of December 2023, and therefore, is not yet included in our current fiscal 2024 outlook.

For revenue, we expect reported net sales growth to be in a range of down 0.5% to plus 1.5% and organic net sales growth of flat to 2% for the year. Our expectations reflect improving volume trends throughout the year with an expected lower contribution from pricing and disciplined levels of promotional activity. In terms of phasing, we do expect volume declines to continue in the first half of fiscal 2024, with sequential improvement leading to positive trends in the second half. This dynamic will be most pronounced in Q1, where we would expect top line to be very much in line with consumption.

For earnings, we expect adjusted EBIT and adjusted EPS growth of 3% to 5%, with an adjusted EPS range of $3.09 to $3.15. We also see the opportunity for modest margin progress. Having exited Q4 with core inflation of 6%, we expect sequential quarterly improvement throughout fiscal 2024 and expect full year core inflation in the low-single digit range. We also expect productivity improvements of approximately 3% and cost savings of approximately $35 million to $40 million towards our $1 billion savings program.

As a result of improved second half volume trends and these cost dynamics, earnings growth and margin expansion are expected to be second half weighted. Additionally, in line with our continued commitment to brand investments, we expect marketing and selling expense as a percent of net sales to be at the low end of our targeted 9% to 10% range, with a step-up in marketing and selling spend in the first quarter of fiscal 2024, both on a year-over-year basis and sequentially compared to the fourth quarter of fiscal 2023.
Division operating margins are expected to improve overall for fiscal 2024, with Snacks operating margins expected to be above 15% and modest operating margin expansion in Meals & Beverage expected in the second half of the fiscal year. Our full year adjusted EBIT and EPS guidance also comprehends an estimated pension headwind of approximately $13 million to adjusted EBIT or $0.03 per share. This is significantly lower than the impact we saw in fiscal 2023, and represents approximately 1% of both adjusted EBIT and adjusted EPS growth compared to the 3% to 4% impact we saw in the prior year. This headwind will be most pronounced in the first quarter.

Other key assumptions underlying our guidance include an expected net interest expense of approximately $185 million to $190 million, and an adjusted effective tax rate of approximately 24%. As we think about the phasing for the year, we expect the first quarter adjusted earnings growth rate to be the lowest of the year due to the concentration of higher inflation, increased marketing and selling expenses, the highest quarter impact from lower pension income and some costs related to a non-material cyber incident.

As you know, we don’t provide quarterly guidance. Given the unique dynamics in Q1, however, we expect first quarter adjusted EPS likely in the upper-$0.80 range with momentum building as the year progresses.

As I wrap up guidance, capital expenditures are expected to be approximately 4.7% of net sales. Our priorities for fiscal 2024 include select capacity expansion projects, including the recently announced Goldfish investment, our headquarter consolidation and other programs to support our Snacks margin improvement plan, as well as important IT and productivity investments. We see great opportunity to reinvest back into the business in support of growth and improved profitability. This is fueling the modest step-up in investment compared to the last couple of years and remains very much aligned with our long-term algorithm and capital allocation priorities. We are also committed to maintaining a competitive dividend and a strong balance sheet.

In closing, we are confident that the relevance of our brands, our strength and capabilities in marketing, innovation and supply chain execution provide a solid setup for accelerated growth in the second half of the year and into fiscal 2025.

That concludes my prepared remarks, and I’ll turn it over to the operator for Q&A.
QUESTION AND ANSWER SECTION

Operator: [Operator instructions] And your first question comes from the line of Andrew Lazar from Barclays. Your line is open.

Andrew Lazar
Analyst, Barclays Capital, Inc.

Good morning, everybody.

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

Hi, Andrew.

Andrew Lazar
Analyst, Barclays Capital, Inc.

Hey, there. Mark, thanks for some of your commentary at the outset on the sort of current operating environment in the industry and how that sort of impacts your thinking for the year ahead. You talked about a number of impacts and then a bunch of sort of timing factors, right, to keep in mind as we think about the year. So, I guess, I was hoping maybe – maybe give us a little bit more color on sort of how you see the phasing, particularly as it relates to sort of volume recovery as you go through the year. And for the – I guess for the full year, how you would think that organic growth target you've laid out sort of breaks out between, let's say, volume and pricing?

And then, I guess, secondly just would be, do you feel like the – given it's a back-end loaded year, and it's for reasons [ph] I don't (00:30:44) understand, do you feel like you're giving yourself enough room or flexibility...

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

Sure.

Andrew Lazar
Analyst, Barclays Capital, Inc.

...to sort of hit those numbers, particularly in light of some of the very recent or near-term trends that you discussed in the industry? Thanks so much.

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

Yeah, sure. [indiscernible] (00:30:58) it's a great question and one that, I think, as you would imagine, we probably spent the greatest amount of time really trying to unpack it. And as you point out – as you rightfully point out, it really starts from getting a good understanding of what we're experiencing now. And I think we've had a couple of quarters where arguably we've seen consistent across – pretty broad-based across the industry some slowdown and perhaps a little less volume recovery than what many of us might have originally expected. And so, really digging into that to understand the drivers, I think, are important for getting the confidence or the conviction in the full year.
As I laid out earlier, we kind of anchored on three things that we see influencing the numbers with kind of variable impact as it relates to timing or sequence through the year. So, the first one and the one perhaps that for many might not have been immediately on the radar screen is this kind of tail-end of COVID impact. And I know that's perhaps something we didn't talk a lot about a year ago in fourth quarter. But as we really took time to kind of step back and compare baselines of our categories, especially some of our, let's call it, less-prevalent-in-the-summer categories like soup, you really do see a very tight linkage to where we saw a couple of the surges that occurred in the tail-end of fiscal 2022 for us and into the first quarter of 2023. That is really the tail-end of it.

So, although, we see that as a fairly material impact on a couple of areas, I do think you're going to – by the time you get really into the later part of Q1 and into Q2, we don't see that as much of an impact. And in fairness, I think looking back, it was probably a catalyst for helping us deliver even better elasticities than perhaps anyone really expected at that time. Although, I would still say, even without it, it was still much better elasticities than what history would provide. So, I think that one's definitely a transitional one. You can see a start. You can see an end. I think we'll feel that a little bit in Q1. But as we get through the balance of the year, I would not expect that to be a headwind.

I think the second area I talked about is pricing. And that one, obviously, will be with us throughout the year, but the orders of magnitude will sequentially improve pretty significantly after being at kind of the peak, which is about 16% pricing impact in Q1, and as that moderates through the year and gets better from quarter-to-quarter, I do expect that impact to become less significant just mathematically. But I also think that as you're continuing to build and support the brands the way we've been doing it, I think that your volume and the prediction of volumes improving, as you get to that kind of more, I would say, normal environment, I think that's going to be one of the catalyst that helps the sequential improvement through the year.

The last one and perhaps the most interesting just to talk a little bit about is what's the consumer behavior because perhaps at the end of the day, that's going to be the greatest indicator of that recovery. And one of the things that I think has been interesting, as we've really dug into this, is this bifurcation between seasonal categories. And as consumers' market baskets are shrinking, what we really see is this kind of two-pronged rationalization. One, first, prioritizing those categories that are more relevant in the season. So, those that are more prevalent in the summer tend to hold up better in the consumers' basket than maybe a soup, for example, where it drops pretty significantly in the summer in household penetration, and we can see that kind of amplified in a little bit of category-to-category comparisons.

The great news is when the seasons move into the fall and into the winter, as I think we all understand kind of where the spikes are for soup in general, that jumps up to a top-10 category based on household penetration in those seasons. And that gives us a lot of conviction that the relevance and the prioritization of that in a shopper's basket will begin to go up. And in fact, even in the more recent trends, although far from perfect, we've started to see some of that improvement occurring.

I mentioned this on the call, one of the things that's quite interesting where snacking has been much steadier and more consistent, part of that fact is because in every season, snacking is number one or number two as far as rating is a priority or household penetration for consumers. So, I do think there is this dynamic where consumers are making trade-offs. And I think the second part of that is really this dynamic of consumers trying to stretch their dollar. And what I mean by that is, we see a migration to categories and purchases that enable consumers to feed a greater number of family members, or a greater number of servings. And so, you see things like pasta, rice, pasta sauce for us, our cooking condensed soups hold up and do very, very well, where some of our more single-serve, maybe a little bit more individual products, have been a little bit more impacted, if you will, by this recent
kind of consumer tightening, if you will, that's not unexpected in the – given the macroeconomic environment and kind of the sustained inflationary period.

I think what – I expect that to continue. But as inflation perhaps moderates through the year, I would expect some of that pressure or some of that more return to normal to be present across the fiscal year, although, I do see very much, especially in the first part of Q1, where we’re still in kind of that summer season, but this particular area will continue to impact the business. But when you put together this kind of cycling of COVID, the moderation of pricing and what I think will be a better position for some of our categories relative to seasonality and priority in the basket along with a bit more expected normalizing of inflation, this is why we see the sequence of the year improving. And this is why we also think this is not a moment or a structural change to food that requires you to chase volume or share kind of to the bottom, right? So, the idea that we’re going to need [ph] dysfunctional (00:37:56) promotion to manage what I just walked through is just not what we’re seeing. And that’s why the confidence of the year is laid out the way it is.

As far as why were we not more conservative, I think what we’ve always tried to do is appropriately give you the perspective on where we see ourselves and where we see the business with, of course, a little bit of flexibility to deal with whatever the inevitable variability may be. But we feel very good about how the year lays out. And even with a relatively tougher Q1, as we expect most of what you saw in Q4 to be more present in Q1, that sequence and that climb is going to be quite positive. Remember, too, this is – I remember when we delivered this imagining lapping it, but last year Q1, we were 15% up on every metric. So, top line, EBIT, EPS, all 15% growth. So, our comps in the year are significantly tilted to a favorable first half to back half, which just is another reason as you model and do the math to feel a little better about that sequence.

Andrew Lazar
Analyst, Barclays Capital, Inc.

Great. No, thanks for the detail. Have a good holiday.

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

Yeah. Thanks. See you next week.

Operator: Your next question comes from the line of Ken Goldman from JPMorgan. Your line is open.

Kenneth Goldman
Analyst, JPMorgan Securities LLC

Hi. Thanks so much. Mark, you discussed some of the reasons for volumes to improve in the second half. I certainly appreciate the reasons why. I’m also curious to hear a little bit more about the plan to maybe improve market share, especially in soup and broth. I’m just curious how we should think about share trends that we can see in Nielsen. Should we expect them to remain, I don’t know if the word challenged is right, but a little bit underwhelming until we can see some of the maybe bigger declines lapped, or are there any changes you can make to pricing or other marketing effort that maybe will help us see some of the scanner data in terms of market share reverse a little bit sooner?

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

Yeah. So, it’s a good question, Ken, and there’s clearly, I would say, very distinctly different parts of our portfolio as we kind of look at it today. I would certainly say one of the things that has been a standout for us has been our
Snacks business. And as much as we talk a lot about the dynamics within Meals & Beverages, I would just say, for 50% of the business, we feel very, very good about how the brands have held up. And although, we still see some pressure on pretzels, where you've got a very distinct driver and reason for that in the acceleration of that category through some new sub-segments, the most – the majority of our brands and especially our power brands really are positioned well. And although, we'll cycle some pricing there as well, I feel very good about how we're competitively positioned as it relates to brands like Goldfish or even our Pepperidge Farm cookie business, which we see a great holiday ahead and really have some terrific innovation coming.

Snack Factory has been very strong. Our Kettle potato chips is probably an area where we've seen a little bit more competition, but we know how to play that. We have a great value proposition as it relates to Kettle and Cape Cod and some super-innovation there as well. So, I would just say from a Snacks standpoint, and half of our business, we feel really good about how we're positioned.

Then I think as you get into Meals & Beverages, I do think that's probably where we've experienced a little bit more pressure on share. But it is interesting as you kind of fully unpack it. One of the points that I made in my prepared remarks is, for example, on soup, if you were to remove broth as a segment, where we know we're getting a lot more pressure from private label, it's a more commoditized segment, if you took broth out of that, our share is flat in soup, which is really a testament to the core growth areas I talked about, which represents 70% of that portfolio and where I fully expect to continue to grow and drive positive share as we have over the last several years.

You had brands like Chunky returning to share growth, Pacific continues to do well. Our Condensed Cooking business has really just been performing extremely well competitively. And even in those categories where private label exists, those differentiations that are within those brands have been quite effective.

I think on broth and some of our flankers within soup, which is where arguably we felt some of the greatest pressure, I think those are areas where you will see us be very focused on ensuring that value is protected, in particular during key seasons or key holidays. But we'll make sure that we stay competitive. I think on some of the flankers, the opportunity that I think we have there is really to determine that those value propositions, and I think in some cases, we'll have a good path forward, in others, you may see some rationalization in areas as we really tighten that portfolio for the future.

But as I said, I think the thing that stands out to me is, we talk a lot about the soup business, and is that a hindrance or a help. I think unpacking a little bit more of the segmentation helps a lot. When you contain 7% of our sales in the company that are in these more challenged areas and with opportunity to improve, I feel a lot better, and I hope the investors would as well that on the balance of that portfolio, we feel very good.

Pace has been another standout, and we've seen positive share there and really expect that value proposition. It's used heavily in cooking and meals right now, which bodes quite well for Pace. And then Prego is an interesting one, right? We continue to grow as pasta sauce category performs very well. But we know there's this other segment in ultra-distinctive that has really been outsized growth and we can't compete there with Prego. That's not what that brand does. So, although, I don't love the share impact there, I kind of understand it. And of course, that's a big catalyst for the Sovos – the potential Sovos acquisition, which I think will be a great complement to our Prego business and give us a lot of conviction going forward.

So, I think I would start by just saying, I don't think the share performance of the business, when you look at the parts that are most critical, are in a dire position, I think the areas where we do need some work are fairly
contained and focused, and I think there's a lot of reasons to believe that where we have strength, we'll continue to drive that going forward.

Kenneth Goldman  
Analyst, JPMorgan Securities LLC

Very helpful. Thank you. Have a great weekend.

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

Bye. Thanks, Ken.

Operator: Your next question comes from the line of Peter Galbo from Bank of America. Your line is open.

Peter T. Galbo  
Analyst, BofA Securities, Inc.

Hey. Good morning, Mark, Carrie. How are you guys?

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

Hi, Peter.

Peter T. Galbo  
Analyst, BofA Securities, Inc.

Mark, I just wanted to kind of hone in a little bit and not to make you do math on the call, but I think if you just kind of take the midpoint of the range you've put into the outlook, it implies something like 100 basis points of gross margin expansion in 2024 relative to 2023. And understanding that's probably a back half-weighted number, I just wanted to maybe give you a chance, what gives you the confidence between, I guess, cost savings and COGS productivity, maybe moderating inflation just to get there that we should kind of have confidence that, that can come back in the second half of the year?

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

We did a pretty good job laying out the drivers right there, Peter. I mean, I think, remember, you've got a wonderfully helpful tailwind in our Snacks business and the margin agenda that we're anticipating there. As we mentioned in the call, we feel terrific about the step-change that we made in fiscal 2023, getting up over 14% from our starting point back kind of pro forma around the 12% range.

And as we look at 2024, we've got a lot of confidence in the initiatives that are there that will keep driving that, and we expect that to be north of 15% as we get into the year. So, another important step in our journey to our long-term margin goals for snacking. But I think underlying kind of macro across the business, you do have a dynamic where you've got reducing inflation as you sequence through the year, especially as we come off a relatively high peak in 2023, you're at low-single digits today, our outlook is for low-single digits as we go into the year, and arguably, that's front-loaded improving through the year is a big driver for that reason why.

And then I do think with that kind of moderation, you are enabling your productivity and your cost savings to be more incremental and get back to driving margin expansion. And even on our Meals & Beverage business, where
we're anticipating more of modest margin improvement, that will be a big factor for that business and why we believe we'll start that journey back to some stronger margins as we get into the – in particular, into the back half of the year. But I think as you imagine that landscape, that's how we’re seeing this margin bridge or progression through the year. And although, we are pointing to a tougher Q1, as many of the dynamics in Q4 still are around in Q1, we're not imagining a significant headwind on gross margins or margins that are going to really impact dramatically and then improve as we go.

Carrie, did I miss anything in there?

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

[ph] Talk a little about foodservice. Again, that was a big... (00:48:15)

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

That's a great point, yeah.

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

... [ph] will normalize, that growth will normalize, which brings itself a little (00:48:21) bit of unfavorable mix in fiscal 2023 that we won't have [indiscernible] (00:48:26)

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

Yeah. I mean, that's a great point. I mean, if you look at mix for this – even in this quarter, if you looked at especially Meals & beverage. And if you're wondering a little bit the drivers of that margin that we anticipated, but it's certainly significant. About a third of that is coming from mix, which is really driven by the outsized contribution of foodservice. As we get into Q1, that actually goes away because the recovery of foodservice was really most pronounced starting right in the beginning of fiscal 2023. So, that mix benefit, as you start to go through the balance of the year, will be yet another absence, I would say, of a headwind that we had this year.

**Peter T. Galbo**  
Analyst, BoAi Securities, Inc.

Got it. Very helpful. Thanks, Mark.

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

Okay. Thanks, Peter.

**Operator:** Your next question comes from the line of Michael Lavery from Piper Sandler. Your line is open.

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

Thank you. Good morning.
Hey, Mike.

I wanted to drill into margins a little bit. And I guess just two parts there. You gave the outlook for 2024 as 15%-plus in Snacks. Maybe just confirming, would you still feel like you're on track for 17% by fiscal 2025, or has that been pushed out a bit?

And then on Meals & Beverage, certainly you pointed to some of the inflation headwinds and some things that are clear. But with the fading pricing, has it just stepped up productivity that really drives a better improvement in the back half? Like maybe just unpack that a little bit better as well.

Yeah. So, I think on the Snacks side, and Carrie will do this one together as well, but I would tell you that I continue to feel very confident in our road map to 17%. I think as far as do we get all the way there in 2025, it will depend a little bit, I think, on some of the environmental elements that have been creating a little bit of the challenge that we've seen over the last couple of years. But I feel very good now with what we've put on the board in 2023 and what the outlook is for 2024. And so, I think we're in the hunt. But I'm a little hesitant. I want to see a couple more variables as it relates to inflation and more environmental cost.

One of the things we've talked a little bit about that we've had to try to work our way through is some of the fixed – let’s call it, fixed inflation like labor has been tougher, more challenging than we originally put into the model. The good news is, we found other means in which to continue to drive further productivity. And so, I think we're – although, I see the kind of line of sight, if you will, to 17%, probably want to see a couple more of those variables come in to confirm for sure exactly that timing. And I know we owe that back to folks and we're working on that, and we'll provide that in the near future.

I think on Meals & Beverages, it's a little bit of a function of kind of cycling out of some of the environmental elements that are there. I will say, one of the things that, on Meals & Beverage, has been a little tougher in the more recent period is we've been very judicious on pricing relative to inflation, and that's probably put a little more pressure in Q4 as well as, to some degree, in the first part of the year. As inflation moderates through the year, we expect that dynamic to normalize and then we expect to be able to utilize the productivity more incrementally to drive that kind of moderate margin improvement that we're expecting on Meals & Beverage for the year. So, it is a little bit of a dynamic of Meals & Beverage needing to be a little bit more balanced. I'm not talking about spending back on promo. I'm simply talking about, as we talked previously, through our waves of pricing, how to make sure some of our categories like broth and condensed soup, where we know we're going to be a little bit more value-driven how to manage that. And although, that's provided a little bit of short-term pressure, we expect that as that normalizes in 2024 and productivity is more incremental to the business, you'll start to see that pivot back and start to see margins recovery there that I know we're expecting and I think will be very helpful for us as you think about the algorithm and the phasing of 2024 [Technical Difficulty] (00:52:57). Anything I missed?
Mark A. Clouse  
President, Chief Executive Officer & Director, Campbell Soup Co.

Yeah. Okay. Great.

Michael S. Lavery  
Analyst, Piper Sandler & Co.

Okay. Thank you.

Operator: Our next question comes from the line of Jason English from Goldman Sachs. Your line is open.

Jason English  
Analyst, Goldman Sachs & Co. LLC

Hey. Good morning, folks. Thanks for slotting me in.

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

Hi, Jason.

Jason English  
Analyst, Goldman Sachs & Co. LLC

And congrats on the margin progression on Snacks. It's good to see.

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

Thank you.

Jason English  
Analyst, Goldman Sachs & Co. LLC

But sticking on margins and turning to the other side, Meals & Beverages. Obviously, some challenges there, particularly in the back half of the year. Based on normal seasonality, it suggests that it looks like you're probably going to enter the year with margins down a couple of hundred basis points in the first quarter and maybe down up to 100 basis points or so in the second quarter. To get to margins up for the full year, if I'm right on that, and please confirm or deny, it implies pretty material margin expansion in the back half of the year. So, is that cadence roughly in line with your expectations? And if so, what drives that ramp in the back half?

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

Yeah. I think a big part of it, Jason, is that we have definitely seen – let's take Q4 as an example on Meals & Beverages, and we talked a little bit about this in Q3, as we kind of foreshadowed the fourth quarter. And although, fairly consistent to expectations, you have about a third of the impact on Meals & Beverage that is a mix dynamic that we would expect to reverse in the second half.

So, as you see a more dramatic contribution from foodservice and some other lower-margin segments that are in the business, as well as, as you look at where some of the pressure has been relative to the consumer dynamics I
talked about, there's no question that's been a little bit more significant on our soup business, which, as you know, has a very good margin architecture. So, mix is a big part of what that dynamic or that swing will be.

The other major contribution to the margin headwind has been this dynamic that we really do only expect to see in Q4 and Q1, where we knew that pricing was going to lag a little bit of the tail-end of inflation as we made some choices relative to more pricing that we did not take in places like broth and a little bit, to some degree, in condensed soup.

As the inflation numbers normalize throughout the balance of the year, that is going to be a marked difference in margin impact, and then with the significance of a lot of productivity that we've been putting in place, recognizing some of the structural inflation and costs that I've talked about, will really be landing in the back half of the year. So, I do expect to see outsized margin recovery in the back half.

And I think although your phasing does illustrate that, I think it's fairly accurate to how we see the year unfolding. But I think the drivers that are inherent in that are able to – we can pinpoint those. And for the most part, they're not necessarily executionally-driven or even dramatically related to kind of hope and prayers for the environment. They're pretty mechanical in nature and is why we felt confident in building a profile that has a little bit more of a back-weighted margin improvement as it relates to Meals & Beverage. So, hopefully, that helps give you at least the variables that we're looking at.

And that's super helpful, but I'm still a little bit confused. So, maybe you can unpack that mix component for me a little bit more because my understanding or my thought was this was more of a normalization that foodservice was recovering and now we're back to more normal mix. You're saying it's abnormal, it's going to reverse. So, what is abnormally and going to reverse?

Yeah. I think you've got the dual impact of greater pressure on higher-margin portions of your business while also having a much higher growth contribution from foodservice. I think both of those variables flip in the back half of the year. I think you'll see a stronger relative performance out of our soup business and higher-margin portions of our business, while also having, as you point out, a more normalized contribution from foodservice. So, I do think it is a little outsized right now as it relates to what we're modeling for the back half of the year.

[Technical Difficulty] (00:57:35) predicate on pretty meaningful volume growth in soup in the back half of the year, am I understanding that correctly?

I think returning to volume growth. Meaningful, I think, is always a little bit of a – for soup, yes, I think it will be meaningful growth.

Operator: Ladies and gentlemen, we have reached the end of our question-and-answer session. This concludes today's conference call. We thank you for your participation and you may now disconnect.