US Consumer Staples

Thoughts ahead of December quarter end earnings

Price Objective Change

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Equity
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Minimal EPS upside; sales/earnings quality a focus

In our view, 4Q earnings season holds limited upside surprise potential as companies across our consumer staples coverage universe saw sales growth slow , a contrast to beat and raises earlier in 2023 . A combination of sluggish demand (volumes not inflecting as fast as expected) and management penchant to "spend ahead" for 2024 should prevail. In our view, exceptions to this are likely to be KO, MDLZ, CL, ELF and BRBR.

Stocks with potential for earnings day moves

EL: Hainan inventory recovery could be delayed modestly, however stock should react positively if guidance is unchanged. **CL:** North American scanned channel share performance has notably improved, with untracked channel purportedly doing better. While Hills is a drag, sentiment could be buoyed if '24 growth is led by Oral Care and HPC business. **ELF:** we expect market share momentum to continue with shelf space gains and untracked channel sales are expected to outperform, with marketing spend boosting brand awareness. **KO:** Expect well balanced results with volume growth and margin expansion. A potential moderation in currency headwinds would boost sentiment. Expectation are low for **MNST** and FY24 could shape up to be a year with sales growth and margin upside. **TAP** also has low expectations, 4Q volumes appear solid and there is potential for margin expansion as packaging and freight cost pressures ease. **KHC** sets up to be the "best house on a touch block" in center store packaged food. We lowered estimates on **HSY** where volume pressure in rising cocoa/sugar costs could result in below average EPS growth in '24. Market will also be focused on the volume evolution at **PEP** and **KDP**.

Top picks: meet/beat growth algo to drive dispersion

Prioritization across consumers in 2024 is as follows: "**Leaders"** (companies that could achieve long term algorithm or better next year) include: CL, ELF, KO, MNST, BRBR, STZ, CCEP, LW, FRPT, MDLZ, PM. "**Wild Cards"** (companies where we expect positive growth, but maybe algo at best) include: KHC, SJM, PEP, PG, KDP, CHD, KVUE. "**On the bubble/In the Hunt"** (companies who have self-help initiatives or remain highly debated) include: K, MKC, TAP. "**Could need self-help"** (companies with challenging growth prospects ahead) including: TSN, HRL, BFB, EL, KMB, HSY, GIS, CPB, CAG, MO. From a sub-sector perspective on valuation Packaged Food is most attractive (both on absolute and when considering where staples trade in the current rate environment), followed by Beverages and HPC (appears to have the most multiple to give). From a fundamental perspective Beverages is most attractive followed by HPC and Packaged Food

Exhibit 1: Price objective changes

We are adjusting our price objectives for HSY and PPC

Ticker	Old	New
HSY	$200	$195
PPC	$30	$32

Source: BofA Global Research

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Refer to important disclosures on page 28 to 32. Analyst Certification on page 27. Price Objective Basis/Risk on page 20.
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Timestamp: 22 January 2024 06:33AM EST

Key charts

Exhibit 2: Companies mentioned in this report and their respective rating, price objective and estimate change
In this edition of our earnings preview we update EPS estimates for HSY and KVUE

	Rating	Price Objective	Upcoming quarter		This fiscal year		Next fiscal year		The following fiscal year	
Food	**Current**		**Old**	**New**	**Old**	**New**	**Old**	**New**	**Old**	**New**
BRBR	Buy	$65.00	$0.40	$0.40	$1.58	$1.58	$1.84	$1.84	$2.05	$2.05
DOLE	Underperform	$10.00	($0.01)	($0.01)	$1.07	$1.07	$1.22	$1.22	$1.38	$1.38
FRPT	Buy	$100.00	$0.05	$0.05	($0.97)	($0.97)	$0.29	$0.29	$0.74	$0.74
HSY	Neutral	$195.00	$1.97	$1.97	$9.54	$9.54	$9.90	$9.50	$10.52	$10.10
K	Neutral	$60.00	$0.74	$0.74	$4.12	$4.12	$3.55	$3.55	$3.80	$3.80
KHC	Buy	$42.00	$0.75	$0.75	$2.95	$2.95	$2.96	$2.96	$3.13	$3.13
KLG	Neutral	$13.50	$0.17	$0.17	$2.37	$2.37	$1.40	$1.40	$1.57	$1.57
MDLZ	Buy	$82.00	$0.77	$0.77	$3.22	$3.22	$3.51	$3.51	$3.79	$3.79
PPC	Buy	$32.00	$0.42	$0.42	$1.52	$1.52	$2.43	$2.43	$2.58	$2.58
TSN	Underperform	$47.00	$0.34	$0.34	$1.80	$1.80	$3.34	$3.34	$4.20	$4.20
UTZ	Neutral	$16.00	$0.17	$0.17	$0.58	$0.58	$0.65	$0.65	$0.79	$0.79
Non-Alcoholic Beverage										
CELH	Neutral	$65.00	$0.17	$0.17	$0.92	$0.92	$1.15	$1.15	$1.44	$1.44
CCEP	Buy	$75.00	€ 1.83	€ 1.83	€ 3.68	€ 3.68	€ 3.95	€ 3.95	€ 4.17	€ 4.17
KO	Buy	$68.00	$0.48	$0.48	$2.68	$2.68	$2.80	$2.80	$3.04	$3.04
KDP	Buy	$38.00	$0.54	$0.54	$1.78	$1.78	$1.90	$1.90	$2.04	$2.04
MNST	Buy	$65.00	$0.36	$0.36	$1.53	$1.53	$1.75	$1.75	$2.00	$2.00
PEP	Buy	$210.00	$1.71	$1.71	$7.54	$7.54	$8.03	$8.03	$8.65	$8.65
Alcoholic Beverage										
TAP	Neutral	$72.00	$1.09	$1.09	$5.33	$5.33	$5.71	$5.71	$6.10	$6.10
HPC										
CL	Buy	$90.00	$0.84	$0.84	$3.20	$3.20	$3.48	$3.48	$3.76	$3.76
CLX	Neutral	$150.00	$1.03	$1.03	$4.47	$4.47	$6.59	$6.59	$7.95	$7.95
CHD	Neutral	$100.00	$0.64	$0.64	$3.16	$3.16	$3.50	$3.50	$3.80	$3.80
COTY	Buy	$15.00	$0.19	$0.19	$0.39	$0.39	$0.58	$0.58	$0.63	$0.63
EL	Neutral	$150.00	$0.50	$0.50	$2.30	$2.30	$5.45	$4.25	$6.22	$5.35
ELF	Buy	$190.00	$0.74	$0.74	$3.17	$3.17	$3.69	$3.69	$3.90	$3.90
KMB	Underperform	$115.00	$1.49	$1.49	$6.58	$6.58	$7.01	$7.01	$7.41	$7.41
PG	Buy	$175.00	$1.68	$1.68	$6.36	$6.36	$6.85	$6.85	$7.44	$7.44
KVUE	Buy	$26.00	$0.25	$0.25	$1.20	$1.20	$1.09	$1.07	$1.22	$1.20

Source: BofA Global Research

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Exhibit 3: BofA EPSe versus Visible Alpha Consensus
Below we outline our EPSe versus Visible Alpha Consensus

	Upcoming quarter			Year 1			Year 2			Year 3		
Food	**BofA**	**Visible Alpha**	**Variance**	**BofA**	**Visible Alpha**	**Variance**	**BofA**	**Visible Alpha**	**Variance**	**BofA**	**Visible Alpha**	**Variance**
BRBR	$0.40	$0.39	$0.00	$1.58	$1.61	($0.03)	$1.84	$1.88	($0.04)	$2.05	$2.22	($0.17)
DOLE	($0.01)	$0.02	-$0.04	$1.07	$1.08	($0.00)	$1.22	$1.23	($0.02)	$1.38	$1.39	($0.01)
FRPT	$0.05	$0.10	-$0.04	($0.97)	($0.92)	($0.05)	$0.29	($0.16)	$0.45	$0.74	$0.33	$0.41
HSY	$1.97	$1.96	$0.01	$9.54	$9.53	$0.01	$9.50	$9.85	($0.34)	$10.10	$10.37	($0.26)
K	$0.74	$0.72	$0.02	$4.12	$3.52	$0.59	$3.55	$3.69	($0.15)	$3.80	$3.89	($0.09)
KHC	$0.75	$0.77	-$0.02	$2.95	$2.96	($0.02)	$2.96	$3.02	($0.06)	$3.13	$3.18	($0.05)
KLG	$0.17	$0.20	-$0.03	$2.37	$2.10	$0.27	$1.40	$1.42	($0.02)	$1.57	$1.48	$0.09
MDLZ	$0.77	$0.78	-$0.01	$3.22	$3.24	($0.02)	$3.51	$3.52	($0.01)	$3.79	$3.83	($0.04)
PPC	$0.42	$0.43	-$0.01	$1.52	$1.53	($0.02)	$2.43	$2.48	($0.05)	$2.58	$2.66	($0.07)
TSN	$0.34	$0.38	-$0.04	$1.80	$1.94	($0.14)	$3.34	$3.19	$0.15	$4.20	$3.98	$0.23
UTZ	$0.17	$0.16	$0.01	$0.58	$0.57	$0.01	$0.65	$0.63	$0.03	$0.79	$0.71	$0.08
Non-Alcoholic Beverage												
CELH	$0.17	$0.19	-$0.02	$0.92	$0.89	$0.02	$1.15	$1.14	$0.01	$1.44	$1.49	($0.05)
CCEP	€ 1.83	$1.83	$0.00	€ 3.68	€ 3.68	($0.00)	€ 3.95	€ 4.03	(€ 0.08)	€ 4.17	€ 4.34	(€ 0.17)
KO	$0.48	$0.49	-$0.01	$2.68	$2.69	($0.01)	$2.80	$2.81	($0.00)	$3.04	$3.00	$0.03
KDP	$0.54	$0.54	$0.00	$1.78	$1.78	($0.00)	$1.90	$1.91	($0.02)	$2.04	$2.07	($0.03)
MNST	$0.36	$0.38	-$0.02	$1.53	$1.56	($0.03)	$1.75	$1.82	($0.07)	$2.00	$2.04	($0.04)
PEP	$1.71	$1.72	-$0.01	$7.54	$7.56	($0.02)	$8.03	$8.15	($0.12)	$8.65	$8.81	($0.16)
Alcoholic Beverage												
TAP	$1.09	$1.12	-$0.03	$5.33	$5.15	$0.18	$5.71	$5.51	$0.20	$6.10	$5.82	$0.29
HPC												
CL	$0.84	$0.85	-$0.01	$3.20	$3.21	($0.01)	$3.48	$3.48	$0.00	$3.76	$3.77	($0.01)

Exhibit 3: BofA EPSe versus Visible Alpha Consensus

Below we outline our EPSe versus Visible Alpha Consensus

	Upcoming quarter			Year 1			Year 2			Year 3		
CLX	$1.03	$0.81	$0.22	$4.47	$3.80	$0.67	$6.59	$5.63	$0.95	$7.95	$6.31	$1.63
CHD	$0.64	$0.65	-$0.01	$3.16	$3.16	$0.00	$3.50	$3.42	$0.07	$3.80	$3.68	$0.12
COTY	$0.19	$0.18	$0.01	$0.39	$0.38	$0.02	$0.58	$0.53	$0.05	$0.63	$0.65	($0.03)
EL	$0.50	$0.55	-$0.04	$2.30	$2.33	($0.03)	$4.25	$4.16	$0.09	$5.35	$5.32	$0.03
ELF	$0.74	$0.51	$0.23	$3.17	$2.67	$0.50	$3.69	$3.07	$0.62	$3.90	$3.66	$0.24
KMB	$1.49	$1.54	-$0.05	$6.58	$6.60	($0.02)	$7.01	$7.08	($0.07)	$7.41	$7.49	($0.08)
PG	$1.68	$1.71	-$0.03	$6.36	$6.43	($0.07)	$6.85	$6.94	($0.10)	$7.44	$7.48	($0.04)
KVUE	$0.25	$0.28	-$0.04	$1.20	$1.26	($0.06)	$1.07	$1.24	($0.16)	$1.20	$1.34	($0.14)

Source: BofA Global Research

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Nielsen data

The data below focuses on Nielsen scanner data in the enhanced AOD (Answers on Demand), which includes c-stores and AOC (all outlets combined plus C-store) channels for US packaged food and beverage companies for the 4 weeks ended 12/30/23.

Exhibit 4: Key packaged food company trends for the periods ending 12/30/23

Sales were more down in the latest 4wk period across all packaged food companies. Sales were positive for BRBR, FRPT, HSY and SOVO

	% chg (4 wks)			% chg (12 wks)			% chg (52 wks)		
	Dol	Vol	Price	Dol	Vol	Price	Dol	Vol	Price
COMPANIES									
BellRing Brands	41.4	41.6	-0.2	36.7	33.0	2.8	35.0	22.9	9.9
Campbell Soup Co	-3.1	-2.3	-0.9	-2.9	-2.3	-0.6	1.5	-4.9	6.7
Conagra Inc	-6.7	-5.5	-1.2	-5.2	-4.4	-0.9	-1.1	-7.4	6.8
Dole plc	-10.5	-6.4	-4.4	-9.2	-7.3	-2.0	-4.2	-7.3	3.3
Freshpet	31.2	23.9	5.9	31.1	23.2	6.4	29.5	18.2	9.6
General Mills Inc	-4.4	-6.3	2.0	-3.8	-6.1	2.4	2.7	-5.5	8.7
Hormel Foods Corp	-3.9	-1.7	-2.2	-2.7	-1.7	-1.0	-3.2	-3.9	0.7
The Hershey Co	2.8	-4.3	7.4	1.8	-3.3	5.3	5.3	-4.0	9.8
Kellanova	-4.9	-8.6	4.1	-5.0	-6.2	1.3	0.4	35.8	-26.1
WK Kellogg Co	-4.4	-10.4	6.7	-3.3	-8.7	5.9	6.2	-6.2	13.3
The Kraft Heinz Co	-2.7	-4.0	1.3	-2.0	-4.4	2.5	-0.1	-7.4	7.9
Lamb Weston	-7.1	-13.6	7.5	0.9	-5.3	6.6	18.1	0.1	18.1
Mondelez International Inc	-0.8	-1.7	0.9	0.5	-1.9	2.4	6.0	-1.5	7.6
McCormick Co Inc	-5.3	-6.7	1.5	-4.2	-5.1	1.0	1.1	-4.3	5.6
J. M. Smucker	-0.8	-0.6	-0.3	-0.4	-0.4	0.0	5.2	-2.3	7.7
Sovos	25.1	19.7	4.5	22.9	17.1	5.0	20.3	14.0	5.5
Tyson Foods Inc	-6.3	-3.1	-3.3	-4.7	-2.9	-1.8	1.1	1.7	-0.6

Source: NielsenIQ

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Exhibit 5: Key HPC company trends for the periods ending 12/30/23

Only P&G and ELF have shown volume growth in scanned channels in the L4W

	% Chg. (4 wks)			% Chg. (12 wks)			% Chg. (52 wks)		
	Dol	Vol	Price	Dol	Vol	Price	Dol	Vol	Price
COMPANIES									
Church & Dwight	4.6	-4.2	9.1	5.1	-3.5	8.9	7.2	-1.3	8.6
Colgate	3.8	-0.5	4.4	2.7	-2.3	5.1	1.5	-7.2	9.4
Clorox	-2.6	-5.4	3.0	-6.6	-9.9	3.7	0.5	-9.3	10.8
Coty	0.6	-5.2	6.1	-0.2	-7.0	7.4	1.8	-7.1	9.6
E.L.F.	52.9	53.3	-0.2	49.3	51.3	-1.3	57.5	61.2	-2.3
Kenvue	0.2	-7.0	7.8	-2.0	-9.3	8.1	1.9	-6.7	9.2
Kimberly-Clark	0.6	-1.5	2.2	0.5	-2.2	2.8	2.6	-1.9	4.6
Procter & Gamble	4.7	0.6	4.1	3.8	-0.7	4.6	6.1	-1.0	7.1

Source: NielsenIQ

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Exhibit 6: Key beverage company trends for the periods ending 12/30/23
Energy beverages, wine, and spirits led volume growth L4W

	% chg (4 wks)			% chg (12 wks)			% chg (52 wks)		
	Dol	Vol	Price	Dol	Vol	Price	Dol	Vol	Price
Non-alcohol									
COCO - coconut water	11.3	9.0	2.1	11.3	8.7	2.4	18.3	12.5	5.1
KDP - K cups	-10.9	-7.9	-3.3	-9.8	-8.6	-1.4	-4.2	-6.5	2.6
KDP - refreshment	1.8	-2.5	4.4	1.6	-3.5	5.3	7.1	-4.0	11.6
KO - total beverages	2.2	-1.7	3.9	1.6	-2.5	4.2	5.5	-4.1	10.0
PEP - total beverages	-0.8	-7.4	7.1	-1.0	-8.5	8.2	4.2	-8.5	13.9
Energy drinks									
Bang	-57.2	-60.0	7.0	-61.7	-64.3	7.2	-62.1	-64.9	8.0
Celsius	105.2	64.8	24.5	118.1	67.3	30.3	138.9	87.0	27.8
MNST X Bang	3.4	1.9	1.5	3.6	1.9	1.6	8.6	1.6	6.9
Red Bull	4.0	-1.2	5.2	2.9	-0.8	3.6	7.3	1.5	5.7
Beer/FMB/Cider									
ABI	-14.0	-14.1	0.2	-14.0	-14.2	0.1	-9.2	-12.3	3.6
SAM	-0.4	-2.7	2.4	0.8	-2.0	2.8	0.8	-3.6	4.6
STZ	11.4	10.3	0.9	11.8	10.5	1.2	11.3	7.5	3.5
TAP	6.4	4.9	1.4	7.7	6.1	1.6	10.1	5.3	4.6
Wine									
NAPA	3.3	3.3	0.0	4.6	3.8	0.7	6.5	5.2	1.3
STZ wine	-5.5	-8.4	3.2	-4.7	-8.3	3.9	-3.3	-7.0	4.0
Spirits									
BF/B	-0.7	1.9	-2.5	2.0	5.3	-3.2	4.5	9.4	-4.5
Salty snacks									
PEP (salty snacks)	-0.1	-4.7	4.8	2.0	-3.2	5.4	8.3	-1.5	10.0
UTZ (salty snacks)	2.4	4.3	-1.8	4.1	5.6	-1.4	6.0	-2.4	8.6

Source: NielsenIQ

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Snapshot view by company

Below we offer our thoughts and expectations for our food and beverage coverage universe on the December end quarter, highlight where our view may differ from consensus (callouts), and provide a summarized thesis on each stock. We have previewed several of the names below inside our Year Ahead a few weeks ago and provide any updated thoughts below.

Food

BellRing Brands (BRBR), Buy, reports 1Q24 post-close Feb 5th

Thoughts ahead of the quarter: We maintain our 1Q24 adj. EPS of $0.40 and adj. EBITDA of $96mm. BRBR expects to record $17.4mm of accelerated amortization through the operating expense line in the quarter related to the discontinued PowerBar business. Given its one-time nature, we adjust out its effects in our P&L. Other modeling callouts for 1Q: 1) we model net sales growth of 11%. 2) Gross margin of 34.5%, up +90bps YoY. 3) SG&A is expected to step up this year, with spend expected to be 2H weighted. We model SG&A as a % of sales up +40bps YoY. 4) Tax rate higher in 1Q vs 2Q-4Q given the accelerated amortization the company expects to record in the quarter. We model a tax rate of 26.5%.

Key considerations: 1) Untracked growing meaningfully faster than tracked could mean upside to our current sales estimate for the quarter, 2) any update on planned marketing plans surrounding Premier, which is currently expected to ramp more in the back-half of this fiscal year.

Investment thesis: We maintain our Buy rating & $65 PO based on 34x our CY25 EPS estimate, which is ahead of its peer group. In our view, this is justified as BellRing is poised for future growth given its strength in consumer interest illustrated by its optimistic scanner data which is supported by continued volume growth from production scale up, promotional activity and planned ramp in marketing spend.

Dole plc (DOLE), Underperform, 4Q23 reporting date not announced

Thoughts ahead of the quarter: We maintain our 4Q adj. EBITDA estimate of $59.7mm which does not include Fresh Vegetables segment and is below Visible Alpha Consensus of $66.5mm. Key drivers behind our adj. EBITDA forecast include: 1) organic sales (excluding Fresh Vegetables segment) down -4.1% year over year driven by the tough year ago comparison. We expect Fresh Fruit -8.0% y/y, diversified fresh produce – EMEA +2.3% and diversified fresh produce Americas & ROW -6.5%. 2) Gross margins of 7.1% or down 30bps sequentially. 3) SG&A spend of $114.0mm which is in line with prior quarters.

Key considerations: 1) In January, 2023 DOLE announced it entered into an agreement with Fresh Express to sell its Fresh Vegetables division for about $293mm. We think the long review period suggests that the deal could potentially be blocked or altered. 2) Update on demand and supply levels for key fruits and vegetables.

Investment thesis: We maintain our Underperform rating and $10 PO which is based on 4.9x CY25 EV/EBITDAe. We value shares of DOLE at a discount to peers given industry volatility.

FreshPet (FRPT), Buy, 4Q23 reporting date not announced

Thoughts ahead of the quarter: We raise our 4Q net sales by $5mil to $209mil of with adj. EBITDA relatively unchanged at $28mil for the quarter. Our updated sales estimate is 2% ahead of VisibleAlpha consensus with adjusted EBITDA about in line. Our 4Q sales estimate factors in +26% YoY volume growth noting about +500bps of contribution from untracked channels, and +200bps of mix, +500bps of price. Recall that FRPT will be lapping year-ago pipe-fill, which we forecast to be about -700bps of drag to revenue for the quarter.

Key considerations: Management recently presented at the ICR conference where they signaled strong sales in 4Q and progress on the Ennis facility and longer-term capacity-building efforts. We followed up with management after the conference and heard bullish comments are growth opportunities as follows: 1) whitespace at Sam's Club; 2) opportunity to expand presence in Walmart; 3) Costco outgrowing pet specialty channel and expected to overtake that channel by the end of 2024. High-level, management sounded confident in their ability to hit guidance, and we expect FY24 outlook issued alongside 4Q results to largely keep pace with the +25% sales growth rate that management has emphasized as sustainable for the medium term.

Investment thesis: We reiterate our Buy rating and $100 PO, still based on a DCF reflecting a target CY25e EV/EBITDA multiple of 33.5x. In our view, the high multiple reflects sequentially improving margins and better visibility into cost controls and fixed cost leverage, alongside consistent double-digit topline growth.

The Hershey Co. (HSY), Neutral, reports 4Q23 pre-market Feb 8th

Thoughts ahead of the quarter: We maintain 4Q23 and FY23 adj. EPS estimates of $1.97 and $9.54 respectively. Drivers to our estimates include: 1) FY23 net sales growth of +8%, with price up +8.6% offset by volumes down -0.6%. Given volume shifts in both NA Confectionery and Salty Snacks, we model volume declines of -4% and -12.5% respectively. Pricing in both segments is also expected to decelerate from 3Q levels.

For FY24, we lower our adj. EPS estimate to $9.50 from $9.90. Our lowered estimate is driven by two things: 1) a lower gross margin estimate while 2) maintaining our SG&A dollars estimate. As first mentioned in our recent Downgrade report, cocoa prices since February 2023 have continued to increase. With HSY only covered for ~50% of FY24, and assuming a normal level of productivity (we estimate ~3%), gross margins for the year could be down YoY. We model gross margin of 44% for FY24 which brings it back to FY22 levels, with pressure back-half weighted. Margins in NA Confection will likely be down as well, which lowers our FY24 operating profit margin to FY22 levels of 23.1%. Our SM&A dollar estimate is maintained, as HSY will have to continue spending on the innovation slate launching this year. For FY25/26, we flow through the lower base and lower our estimates to $10.10 and $10.70 respectively, from $10.52 and $11.12.

Exhibit 7: FY24 COGS bridge

We estimate FY24 gross margin of 44%

FY24 COGS bridge	$m	%	GM
FY23 COGS	**$6,196**		**44.9%**
COGS Inflation	$454	7.3%	
Volume	($12)	-0.2%	
Productivity	($186)	-3.0%	
FY24 COGS	**$6,452**		**44.0%**

	% inflation since Feb 2023	% covered	% of basket	Net inflation
Cocoa	49%	50%	21%	5.2%
Sugar	25%	50%	10%	1.3%
Rest of Basket	2.5%	50%	69%	0.9%
Total				**7.3%**

Source: HSY, BofA Global Research estimates

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Key considerations: HSY will be introducing its FY24 financial outlook. There are several items to look out for: 1) as mentioned above, **gross margins** could be pressured given inflated cocoa prices and HSY's exposure to the commodity. 2) an update on **Innovation launch** timing and its expected volume lift. Additionally, timing on marketing spend in relation to the innovation launch. 3) As of now, **interest expense** is expected to be flat to FY23 levels. However, HSY has $300mm of notes due in November 2024. It would be interesting to hear of its plans on whether to refinance or pay down the debt, or a combination of the two. 4) Recall that HSY has several moving pieces happening in FY24 (see below for a summary). For 1Q24, HSY expects to build inventory ahead of its **ERP transition** in NA Confection, similar to Salty but not to the magnitude of that segment. We look to hear possible quantification of the dynamics in FY24.

Exhibit 8: Timing of FY24 dynamics
1Q24 will see some seasonal lumpiness given the range of dynamics

	1Q24	2Q24	3Q24	4Q24
Tailwinds	Innovation Pipeline (+) Confection S4 Inventory build (+)		Salty improvement (+)	Salty improvement (+)
Headwinds	Shorter Easter (-) Salty weakness (-) S4 Transition pressure on margins (-)	Confection Inventory pull forward (-) Salty weakness (-) Shorter Easter (-)	Cocoa/sugar inflation (-)	Cocoa/sugar inflation (-)

Source: HSY, BofA Global Research

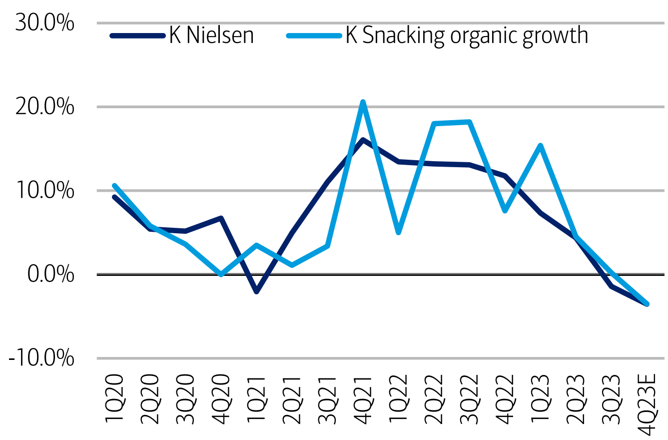
BofA GLOBAL RESEARCH

Investment thesis: We lower our PO to $195 from $200, still based on 19x our CY25 EPS estimate. This is justified, in our view, as HSY has a range of dynamics coming into play in FY24 including potential for gross margin pressure and some topline weakness driven by timing and increased demand elasticity, offset by its innovation pipeline coming on-line and low private label exposure compared to its peer set. Reiterate Neutral rating.

Kellanova (K), Neutral, reports 4Q23 pre-market Feb 8th

Thoughts ahead of the quarter: We maintain our 4Q23 and FY24 adj. EPS estimates of $0.74 and $4.12. Though our model remains largely unchanged, we update our 4Q23 organic sales composition for the North America segment to better reflect recent Nielsen data for the 12-weeks ending 12.30.23. We now model North America organic sales of -4% (prior -3.5%) driven by lower volumes of -9% (prior -8%) and slightly higher pricing contribution of +5% (prior +4.5%).

Exhibit 9: K Snacking organic sales growth vs Nielsen reported data
Historically K snacking has a 67% correlation to reported Nielsen data



Source: K, NielseniQ, Snacks includes: Salty Snacks, Crackers, Snack/Nutrition Bars, Toast Pastries Shelf-Stable

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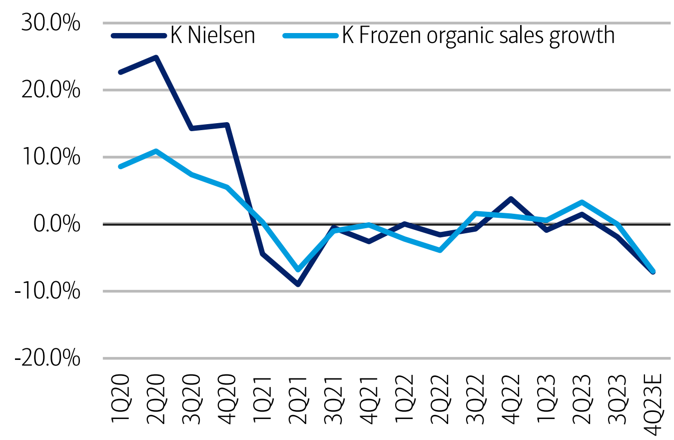
Exhibit 10: K Frozen organic sales growth vs Nielsen reported data
Historically K frozen has a 92% correlation to reported Nielsen data



Source: K, NielseniQ, Nielsen Frozen includes: Meat Alternatives & Waffles/Pancakes/French-Toast - Frozen

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Key considerations: 4Q23 will be the first quarter for K to report as a standalone company (and not carve out) with KLG reflected in our model through a divestiture line-item within the North America segment. In addition, K will be updating its FY24 financial outlook—at its 8/9/23 Investor Day, K provided carve our estimates for the year. Most notably in 2024 we differ on the reported net sales line and on interest expense which may come in higher given some fixed rate debt.

Exhibit 11: K financial outlook vs BofAe
We differ most vs K in 2024 on sales and interest expense relative to Aug 9 investor day

As of Investor Day for FY24	K	BofAe
Sales	$13.4-$13.6bn	$13.13
Adj. operating profit	$1.85-$1.9bn	$1.85
Corporate	-$300mm	($295)
Interest Expense	$300-320mm	$340
D&A	$400-410mm	$410
Business portfolio realignment	$15-25mm	

Exhibit 11: K financial outlook vs BofAe

We differ most vs K in 2024 on sales and interest expense relative to Aug 9 investor day

As of Investor Day for FY24	K	BofAe
Separation costs	$30-40mm	
Adj. EPS	$3.55-$3.65	$3.55
Adj. EBITDA	$2.25-$2.3bn	$2.26
Operating cash flow	$1.6-1.7bn	$1.61
Capex	$600-700mm	($650)
Cash flow	~$1bn	$965

Source: K, BofA Global Research

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Investment thesis: We maintain our Neutral rating & PO of $60 based on 16x our CY25 EPS estimate. This is a premium to center store packaged food peers and a discount to pure play snacking companies. In our view this is appropriate given its sales mix is 60% snacks.

The Kraft Heinz Co. (KHC), Buy, reports 4Q23 pre-market Feb 14th

Thoughts ahead of the quarter: We maintain our 4Q23 and FY23 adj. EPS estimates of $0.75 and $2.95 respectively. Similarly, we maintain our 4Q23 and FY23 adj. EBITDA estimates of $1.656bn and $6.313bn, respectively. Given recent Nielsen scanner data for the L12W ending 12.30.23, we raise our organic sales estimate to +0.5% (prior -0.5%). This is driven by raising our volume estimate to -2.9% (prior -4.3%) and slightly lowering our price estimate to +3.4% (prior +3.8%). Our volume estimate is composed of Nielsen volumes down -4.4% offset by low double-digit growth in Foodservice, netting to our blended volume estimate of -2.9%.

Exhibit 12: NA volume bridge for 4Q23

We estimate Foodservice growing low double digit

4Q23E	NA volumes
Nielsen	-4.4%
Foodservice	11.0%
Blended	**-2.9%**

Source: BofA Global Research estimates, NielsenIQ

BofA GLOBAL RESEARCH

Key considerations: 1) KHC will be introducing a FY24 financial outlook. 2) There is potential for upside in our North America sales estimate if either Foodservice or untracked Retail channels come in better than expected. On Foodservice, KHC expects to grow at a low-mid-double0-digit range for the year. We've baked in a certain level of conservatism and modeled Foodservice at the low end of that range and not that if foodservice grows closer to a mid-double-digit rate, NA volumes could come in ~50bps better than our estimate, all else equal. Recall that longer term, KHC expects Foodservice to grow ~5%.

Investment thesis: We maintain our Buy rating & $42 price objective based on 13.5x P/E multiple on our CY25 EPS estimate. KHC's current valuation is un-demanding with ability to meet/exceed earnings estimates greater than center-store peers, in our view. KHC's self-help initiatives and more conservative approach set up shares to outperform peers simply by executing.

W.K. Kellogg (KLG), Neutral, reports 4Q23 pre-market Feb 13th

Thoughts ahead of the quarter: We maintain our 4Q23 and FY23 adj. EPS of $0.17 and $2.37 respectively. For 4Q23, we now model net sales growth of -3.5% (prior -4%) given the recent Nielsen data for 12 weeks ending 12.30.23. Our volume estimate now sits at -9.5% (prior -12.5%) and price now at +6% (prior +8.5%). No other changes were made.

Key considerations: At the K investor day 8/9/23, KLG announced preliminary FY24 guidance, which will be refined when it reported 4Q23. We model largely in line with the initial guide. In addition, we look to hear potential color on updates in its plans to modernize its supply chain.

Exhibit 13: KLG financial outlook vs BofAe
We model in-line with its sales and EBITDA dollar guidance

As of Investor Day for FY24	KLG	BofAe
Sales	YoY growth: ~flat ($2.7bn)	$2,720
EBITDA	$255-265mm	$260
EBITDA margin expansion	~500bps improvement by YE 2026	420bps
Interest expense	$45-55mm	
Total financing costs	$60-70mm	$50
Pension income (non-cash)	$50mm	$33
Depreciation expense	$80-90mm	$85
Separation costs	$15-25mm	
One time spin costs	$125mm	
Incremental cash outlay for supply chain investments	~$450-500mm over the next 3 years	
Base capex	2.5% of sales	
2024 cash flow generation	70-80% of EBITDA ($255-$265)	22.7%

Source: KLG, BofA Global Research

BofA GLOBAL RESEARCH

Investment thesis: Maintain Neutral rating and $13.50 PO, which is based on 7.25x EV/EBITDA multiple on our CY25 EBITDA estimate. We believe EV/EBITDA is an appropriate valuation metric for this company given KLG's expectation to increase its leverage profile. At 7.25x, we value KLG at discount to both center-store packaged food and KLG comp set peers. In our view, the discount is justified given KLG's lack of topline growth, expected cash burn and increasing leverage profile as well as dependance on delivering against its margin expansion targets to achieve its 3-year guide.

Mondelez International Inc. (MDLZ), Buy, reports 4Q23 post-close Jan 30th

Thoughts ahead of the quarter: We maintain our 4Q23 and FY23 adj. EPS estimates of $0.77 and $3.22 respectively. Changes to our model for 4Q23 include: 1) we slightly lower our North America price estimate to +4% (prior +4.5%) to better reflect Nielsen data for the L12W period ending 12.30.23. On volumes, we leave our flat growth estimate unchanged which assumes some growth in untracked channels to offset tracked channels, with the latest scanner data showing volumes down -2%. 2) We reduce the FX headwind on a total company basis to -1.8% (prior -2.2%). Recent moves in the Peso has increased our FX headwind modeled in Latin America to -9% (prior -7%), which is offset by a reduced headwind in AMEA and Europe, now modeling -6% and +1.5% respectively (prior -6.5% and 0%). For the year, MDLZ expects ~4pt headwind on FX, we model a slightly smaller headwind of -3.5%.

Exhibit 14: MDLZ FX exposure
We reduce our FX headwind to reflect recent moves in FX

		3Q23			pre 4Q23		
Currency	**FY 2022**	**Oct 25th**	**Impact**	**% chg**	**Jan 9th**	**Impact**	**% chg**
Argentine Peso (Peso/$US)	130.70	350.00	down	-62.7%	814.30	down	-83.9%
Australian Dollar ($US/AUD)	0.69	0.63	down	-8.7%	0.67	down	-3.1%
Brazilian Real (Real/$US)	5.16	4.99	up	3.4%	4.90	up	5.3%
Canadian Dollar ($US/CAD)	0.77	0.73	down	-5.2%	0.75	down	-3.1%
Chinese Yuan (Yuan/$US)	6.73	7.30	down	-7.8%	7.13	down	-5.6%
Euro ($US/Euro)	1.05	1.06	up	1.0%	1.09	up	4.2%
Indian Rupee (Rupee/$US)	78.61	83.14	down	-5.4%	83.11	down	-5.4%
Mexican Peso (Peso/$US)	20.11	18.30	up	9.9%	16.98	up	18.4%
Russian Ruble (Ruble/$US)	69.72	93.40	down	-25.4%	90.47	down	-22.9%
Pound Sterling ($USD/GBP)	1.23	1.21	down	1.7%	1.27	up	-3.2%

Source: xe.com

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Key considerations: FY24 financial outlook will be introduced. After two fiscal years of significant pricing, FY24 will look like a more “normal” year. 1) **Latin America expectations ex. Argentina**. In the past few quarters, the Latin America segment has benefitted from significant pricing in Argentina, which is expected to be lapped in FY24. We are currently modeling high-single digit/low double-digit pricing for the segment. 2) **Cocoa/sugar inflation**: any incremental pricing actions needed? Gross margin expectations for the year?

Investment thesis: We maintain our Buy rating & $82 price objective based on 22x our CY25 EPS estimate. In our view, a premium multiple is warranted due to 1) portfolio strength given its low exposure to private label vs its peers, categories with elasticities that have held up well in an inflationary environment (snacking) and fast growing geographies, and high market share in their categories, 2) room for revenue acceleration beyond category growth, and 3) good cash flow generation.

Pilgrim's Pride Corp (PPC), Buy, reports 4Q23, no earnings date announced

Thoughts ahead of the quarter: We maintain our 4Q23 EPS of $0.42 which compares to Visible Alpha consensus of $0.43. On operating profit, US to remain solid given the stabilization in commodity chicken prices and continued favorability in grain. We expect Mexico to breakeven EBIT at best in 4Q, while slight growth in Europe EBIT. We maintain our consolidated 4Q23 adj EBITDA of $280mm.

Key considerations: 1) Could US margins normalize in FY24? Following significant volatility from 2020-2023, we estimate commodity pricing to follow more normal seasonal pattern next year with pricing comps beginning to lap two years of swings. We currently model US FY24 margins at ~8%. 2) Feed/grain prices could be a modest tailwind.

Investment thesis: We maintain our Buy rating & raise our PO to $32 from $30 based on 7.5x our 2025e adjusted EBITDA. This compares to PPC's average adjusted EV/EBITDA multiple of roughly 7x and to broiler industry comps which have traded at 6.3x EV/EBITDA historically but is broadly in line with the company's mid-cycle earnings multiple. We assume CY24 is a roughly mid-cycle earnings year.

Tyson Foods Inc. (TSN), Underperform, reports 1Q24 pre-market Feb 5th

Thoughts ahead of the quarter: We maintain our 1Q24 and FY24 EPS of $0.34 and $1.80. This compares to Visible Alpha consensus of $0.35 and $1.90 respectively. On sales, we model up +0.3% driven by volume down -1% and price up +1.3%. Callouts by segment: Beef: we model volumes down -6% in-line with industry run-rates. We model negative pricing in all other segments as well. On operating profits, Prepared Foods is expected to see lower profits than normal seasonality given expected start-up costs at TSN's new bacon facility .

Key considerations: 1) We look to hear additionally color on the Prepared Foods environment. In our view, profitability could continue to face challenges given the start-up cost drag to 1Q and higher Marketing/Advertising/Promotion spending in 1H24. 2) Beef profits are expected to be a meaningful drag to profits for the year and is also expected to be back-half weighted. We look to see if this continues to be the case.

Investment thesis: We maintain our Underperform rating & $47 PO for TSN shares based on a CY2025e P/E multiple of roughly 13x. We value TSN in line with its historical mid-cycle earnings range, which we believe is warranted as the downturn in beef and prepared foods challenges skew risk to the downside, in our view, while improvements in chicken could be a more positive offset.

UTZ Brands, Inc. (UTZ), Neutral, 4Q23 reporting date not announced

Thoughts ahead of the quarter: We maintain our 4Q23 adj. EBITDAe of $49.0mm which is inline with Visible Alpha Consensus of $48.6mm. Key drivers behind our 4Q adj. EBITDA forecast include: 1) +1.0% organic sales growth with volume/mix +0.5% and price +0.5%. This puts us at 3.1% y/y organic sales growth for FY23 which is the low end of the company's organic sales outlook. 2) 36.5% gross margins which is +18bps higher than the prior quarter. 3) $81.6mm of SG&A which is in line with YTD spend.

Key considerations: 1) UTZ hosted an Investor Day in mid-December and reiterated its FY23 financial outlook and revised its long-term growth algorithm which now includes +4% to +5% organic sales growth (prior +3% to +4%), 16% adj. EBITDA margin and double-digit adj. EPS growth (prior +8% to +10%) and a net leverage target of 3.0x, all over the 2026 timeframe. We are currently modeling +2.0% organic sales growth y/y (Consensus +2.9%) 14.0% adj. EBITDA margins (Consensus 12.9%) and +12.9% EPS growth (Consensus +10.1%). 2) Thoughts on how the salty snack category will perform in FY24 given the recent deceleration in retail sales? 3) Cost inflation outlook for FY24.

Investment thesis: We maintain our Neutral rating and $16 PO that is based on our 14.0x CY25 EV/EBITDA estimate. At this multiple, we value shares of UTZ at a premium to "platform companies" and companies that compete in the salty snack category given what we believe is an embedded take-out premium.

Beverages

Keurig Dr Pepper (KDP) Buy, 4Q23 reporting date not yet announced

Thoughts ahead of the quarter: We forecast 4Q23 EPS of $0.54, organic sales growth +3% (-0.7% volume/+3.5% price) including US Coffee down -3.0% YoY (-6.0% volume on -18% brewer decline vs prior -15% and -3% Pod shipments, and +3% price). We forecast +200bps of gross margin expansion to 55.0% better than +100bps expansion in 3Q, with operating margin of 27.7% driven by expansion of +180bps in Refreshment Bevs, +250bps in Coffee (vs +280bps in 3Q) despite lapping $67mil of non-operating benefits in the year-ago quarter, and +320bps in International (FX should be a tailwind).

Key considerations: While there is some caution related to coffee growth entering '24; other factors within KDP's control offer some reassurance on maintaining earnings power due to: 1) Pricing and the impact on margin recovery; 2) line-of-sight to efficiencies now that volume and price are normalizing, and 3) still steady share/growth in US refreshments. US Coffee margin expansion of +280bps in 3Q suggests these benefits are already underway. Private Label coffee exits will remain a 200-300bps drag to volume through 1H24 but we still see $1.90 of EPS within reach next year on the underlying strength in Refreshment Beverages and Coffee margin improvement alone.

Investment thesis: Our $38 PO is based on an 18.6x P/E ratio, which represents an in-line multiple with non-alcoholic beverage peers. Our PO factors in the lower rate environment and reflects KDP's attractive portfolio that we believe is well equipped to grow sales and earnings, particularly with the addition of the C4 energy drink brand. Potential upside risks to our PO are: 1) Additional synergies. 2) Less volatility in the coffee business. 3) Increased adoption of Keurig brewers/pods. 4) Attractive M&A candidate. Potential downside risks to our PO are: 1) Industry shifts away from single serve coffee, which could lead to slower than anticipated de-leveraging. 2) Weak consumer spending around the holiday season could negatively impact sales of the Keurig brewers.

The Coca-Cola Company (KO), Buy, reports 4Q23 pre-market on Feb. 13th

Thoughts ahead of the quarter: We forecast 4Q EPS of $0.48. We expect unit case volume of +2.7%, similar to 3Q23 vs 2019 levels. Note that 4Q laps Russia exit and easy comparisons in China. We model 4Q organic sales growth of +10.2% YoY (prior +7.8%) on concentrate volume and price/mix of +4.1pts/+6.1pts and gross margin of 56.9%.

Key considerations: KO enters FY24 with a good balance between volume/price as inflation moderates, though hyperinflation markets are likely to hold price above "normal" levels. Management previously indicated currency translation could be a "mid-single digit" drag to EPS in FY24. Recent moves in the dollar could moderate the impact. In November, KO announced the U.S. tax court issued its supplemental opinion related to its case with the IRS. KO intends to appeal the decision. In the meantime it is working with the IRS to finalize the cash payment it owes the IRS for the 2007-2009 tax years (currently estimated to be $5.6bn).

Investment thesis: Our $68 PO is based on a target CY25e P/E multiple of 22.4x. Our target multiple implies a 11% premium to non-alcoholic beverage peers, warranted in our view by balanced and resilient organic sales growth supported by their scale and incidence pricing model which has proven to be a tested topline growth lever.

Coca-Cola Euro. Partners (CCEP), Buy, reports 4Q23 pre-market on Feb. 23rd

Thoughts ahead of the quarter: We forecast 2H23E EPS of €1.83 with 4Q organic sales growth of +7.7% (volume +1.4% and price/mix +6.3%). Factors to note in 4Q1) European volume returned to growth in both September and October despite pricing in Germany and the Netherlands; 2) in API, Australia volume should benefit from the phasing through of SKU rationalizations drag in 4Q; 3) from a YoY comp perspective, 4Q23 should benefit from lapping disruptions at a key German retailer, and 4) we should see help from sequentially lower pricing as CCEP laps UK pricing last year.

Key considerations: Heading into FY24, we expect continued improvement in the balance of organic sales growth delivery between volume and price, with a more normalized cadence to pricing actions, starting with Iberia and France in 1Q. Along with 70% of raw materials hedged for FY24 already, the return to typical pricing activity suggests far more favorable commodity cost inflation ahead. We estimate COGS/case inflation of +1.5% next year vs guidance for +8% in FY23, largely due to the 30%+ increase in sugar costs. Otherwise, we look for continued improvement in the API segment as CCEP tools its cost structure and runs its price/pack playbook in Indonesia, early 2024 closing of the Philippines deal, and progress on the stock's inclusion in the FTSE index are potential share catalysts this year.

Investment thesis: Our $75 PO is based on 18x our FY25 EPSe vs our 17x FY24 basis previously (we are assuming a EURUSD forecast of 1.05, down from 1.10). On an FY25 basis, our target is up 1x on shifts in the rate environment, and still a 33% discount to the S&P500 Beverage Index. We are confident in CCEP's ability to continue strides made in de-levering the balance sheet given its high cash conversion rate and attractive profit runway over the medium term. Downside risks to our PO: 1) Unable to unlock revenue and profit opportunities in Australia. 2) CCEP unable to pay down debt and remains highly levered. 3) Currency risk. 4) Markets unable to recover from COVID-19 related restrictions. Upside risks to our PO: 1) CCEP discovers additional synergies. 2) Faster than expected debt pay down.

Monster Beverage Corporation (MNST), Buy, reporting date not yet announced

Thoughts ahead of the quarter: We slightly lowered our 4Q sales estimate ahead of MNST's Investor Meeting and lowered 4Q GMs after the event (both changes didn't have an impact on our EPS estimate for the quarter or out years). Our 4Q23 EPS estimate remains unchanged at $0.36 which is slightly below Visible Alpha Consensus of $0.38 as we model higher SG&A, effective tax rate and lower other income. Key elements behind our 4Q23 EPS estimate include: 1) Total beverage net sales growth of +15.5% y/y. We are modeling U.S. organic sales growth of +5.5% which is ahead of retail sales growth of +3.8% according to Nielsen given our expectation for faster growth in untracked channels. We are not expecting FX to have an impact on sales and are modeling Bang Energy to be a 3.6% tailwind to sales. 2) We maintain our 53.4% gross margin estimate. MNST hosted an Investor Meeting earlier this week and discussed how it expects 4Q23 gross margins to be similar to 3Q23. The company expects gross margins to be negatively impacted by incremental fixed cost from two production facilities (Phoenix, AZ & Norwalk, CA) that are now operational. 3) Operating spend of $460.5mm which is lower than the prior quarter ($473.2mm). 4) We are modeling $250mm worth of share buybacks in the quarter.

Exhibit 15: MNST 4Q23 sales forecast (excludes Alcohol and American Fruits & Flavor segments)
For 4Q23 we are forecasting sales to increase +15.5% y/y with U.S. organic sales up +5.5%

Region	Organic sales forecast	FX	Other	Net sales forecast
U.S.	5.5%	0.0%	3.6%	9.1%
EMEA	29.0%	0.0%	0.0%	29.0%
APAC	7.0%	0.0%	0.0%	7.0%
LATAM	44.0%	0.0%	0.0%	44.0%
Consolidated	13.2%	0.0%	2.3%	15.5%

Source: BofA Global Research

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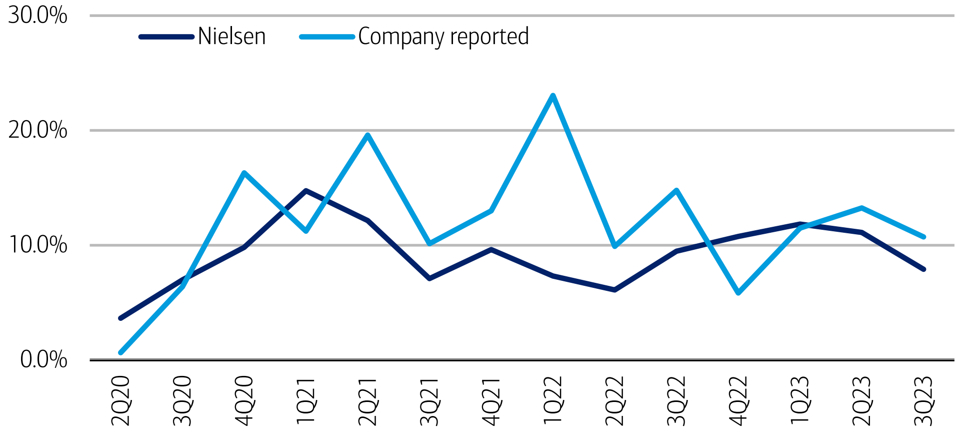
Exhibit 16: Year over year change in U.S. retail sales from Nielsen versus Company reported U.S. sales growth

MNST typically reports growth above Nielsen



Source: NielsenIQ

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Key considerations: 1) Outlook for the total energy category in 2024 and performance energy. 2) Raise prices in the U.S. or certain international markets for 2024? 3) Timeline on Bang turnaround. 4) Sales update by region and country. 5) Expectations for the promotional environment in 2024? 6) Appetite for share buybacks in 2024?

Investment thesis: We reiterate our Buy rating and $65 PO that is still based on 32.5x our 2025 EPSe which is a premium to both the large cap beverage group and other consume staple growth companies. We believe a premium multiple is warranted given its faster relative growth and favorable margin structure.

Molson Coors Beverage Company (TAP), Neutral, reporting 4Q23 Feb. 13th

Thoughts ahead of the quarter: We expect TAP to cap off the year with strong financial results driven by the Americas segment. Our 4Q EPSe of $1.09 remains unchanged and is slightly lower than Visible Alpha Consensus of $1.13. We expect Americas organic sales to increase +5.6% year over year with shipments up +3.5% and price/mix +2.0%. Shipments are expected to be negatively impacted by scheduled brewery maintenance and termination of the contract brewing agreement with Pabst (2.5% headwind) and as a result we expect brand volumes (+6.0% y/y) to outpace shipments. For EMEA/APAC we model organic sales down -1.4% y/y with volumes down -5.2% and price/mix +4.0%.

Key considerations: 1) Management suggested at its Strategy day in early October that FY24 would be in line with the revised long term growth targets which include low single digit organic sales growth, mid-single digit underlying income before income taxes and high single digit EPS growth. We are currently modeling +7% y/y EPS growth versus Consensus of +3%. 2) Will TAP's current hedges allow it to benefit from what appears to be a more favorable commodity environment which includes lower aluminum and freight costs. 3) TAP's willingness to invest in marketing next year after increasing 2H spending $100mm this year to secure recent market share gains.

Investment thesis: We maintain our Neutral rating and $72 PO that is still based on 11.8x our FY25 EPSe. At 11.8x we value TAP shares below its 10-year average forward price to earnings multiple and a discount to brewer peers. We believe this reflects near term share gains, underlying improvement operations balanced against questions about the sustainability of sales growth and market share over time.

PepsiCo (PEP), Buy, reports 4Q23 pre-market on Feb. 9th

Thoughts ahead of the quarter: We forecast 4Q23E EPS of $1.71 with organic sales growth of +6.2% (volume -2.1%/price/mix +8.3%) and gross margins 53.0% (+50bps vs last year). A story line in 4Q will likely be volume pressure. We expect volumes to be down -1.0% at Frito Lay North America and -5.0% in Latin America as both segments are likely to see the continuation of consumers choosing smaller packages which is positive for mix but a drag on volumes. Pepsi Beverages North America volumes (we estimate -5.0%) are pressured by reduced emphasis of case pack water, market share losses at Mountain Dew and weakness in Rockstar. We expect better balanced organic sales performance in the other international segments. Recall Europe in particular is driving strong price/mix due in part to pricing in Russia.

Key considerations: On its 3Q23 earnings call management indicated it expects currency neutral sales and EPS growth at the high end of its long-term targets. This is underpinned by a good deal of visibility into inflation (implies mid to high single digit) and productivity. In our view it also reflects management's confidence in having the flexibility to move with consumers if they continue to shift to smaller packages. The net result being a tradeoff between units/transactions over volume/tonnage. That said, there is potential that PEP adjusts its outlook to incorporate a wider range of potential outcomes given volume pressure in three key businesses FLNA, PBNA and Mexico.

Investment thesis: Our $210 PO is based on a 24.3x our CY25 EPS target multiple estimate, which is a premium to non-alcoholic beverage peers and is justified based on our view that PEP is positioned to deliver against its long-term algorithm and returning cash to shareholders via dividends & share repurchases. Upside risks to our PO: 1) Low to moderate FX headwinds. 2) Rebase initiatives put the business in a better position for growth. 3) Improving volume/price/mix in soft drinks. Downside risks to our PO: 1) FX becomes a larger headwind than expected. 2) Frito Lay North America experiences a major decline in volumes due to pricing.

HPC

Colgate-Palmolive (CL), Buy, reports 4Q23 pre-market on Jan. 26th

Thoughts ahead of the quarter: Following our upgrade to Buy last month, we reiterate our 4Q estimates for organic sales growth of +6.6% with net sales of $4.86bil, gross margin of 57.9%, and $0.84 of EPS. As part of our upgrade, we raised FY24 and FY25 EPS estimates to $3.48 and $3.76 respectively, factoring in +4.5% YoY organic sales growth for FY24. We believe CL is well-positioned to for sales and EPS revision potential, which in our view should drive share price differentiation in our Consumer Staples coverage universe in 2024.

Key considerations: Colgate has been demonstrating solid momentum in US scanned channel data from a topline and market share perspective, with easy 1H24 comps as the company laps the Fabuloso recall. We also expect untracked channel outperformance relative to scanner data to continue as Club and Pet Specialty contribute to growth. We also expect strong margin progress as cost savings that ramped in 2023 continue to provide flexibility to invest behind advertising and promotion. From a commodity perspective, we expect to see relief on specialty chemicals, ag inputs, and pulp, likely offsetting ongoing inflation in energy and resin costs, but note FX will likely be more onerous than the low-single digit drag guided for FY23. On Hill's, we note the exit of private label is expected to be a -350bps drag to segment volume in 4Q23 and through the first 9mo of FY24.

Investment thesis: We reiterate our Buy rating and $90 PO, still reflecting a target multiple of 24x CY25e P/E. This target multiple implies an 11% premium vs S5HOUS peers, above historical average discount of about 1%, warranted in our view by improved sales and margin trajectory that we believe could drive upwards estimate and guidance revisions in 2024.

Church & Dwight Co. Inc. (CHD), Neutral, reports 4Q23 pre-market Feb. 2nd

Thoughts ahead of the quarter: We maintain our 2024 EPS estimate at $3.50 and our 2025 EPS estimate at $3.80. In mid-December, we upgraded shares of CHD to Neutral from Underperform and increased our PO to $100 from $85 prior. We expect value sales to lead volume recovery, while challenged categories with Waterpik, Flawless, and vitamins are stabilizing. CHD's visibility on cost inflation continues to improve; cost inflation is abating, estimated at $120m in 2023 which remains above normalized annual inflation of $50m due to higher resin and oil-based commodities and labor/manufacturing. We see greater potential for CHD to make strategic acquisitions in 2024, particularly in the personal care space, given the success of innovative brands with Hero and Therabreath.

Key considerations: CHD will introduce its 2024 outlook and host an Analyst Day on Feb. 2. We expect CHD to see a greater contribution from volume vs. pricing in 2024, returning to algorithm growth, and expect to see guidance reflect its Evergreen model with inflation continuing to return to normalized annual levels. In 2023, investment spend in marketing was greater than historical levels which may continue in 2024, but allow CHD to maintain/grow market share among its premium brands, while seeing resilience in its value portfolio as consumers look for lower cost options. In a challenging environment, greater investment spend may allow CHD to grow volumes above algorithm in 2024. In addition, we expect CHD to return to M&A in 2024 and consider multiple acquisitions after taking a pause in 2023 due to higher rates and valuations.

Investment thesis: We rate CHD shares Neutral with a $100 PO. Our valuation reflects a ~26x P/E multiple on our 2025e EPS of $3.80. We believe a ~26x P/E multiple appropriately reflects a more balanced risk/reward in terms of sales growth, offset by investment spend to support CHD's volume recovery and distribution growth in innovative brands.

The Clorox Co. (CLX), Neutral, reports F2Q24 post-close on Feb. 1st

Thoughts ahead of the quarter: We maintain our estimates for FQ2, expecting net sales growth of +5.7% and gross margin expansion of +210bps, and expect CLX to see a strong volume recovery and better pricing realization. Overall, we maintain our FQ2 adj. EPS at $1.03 and our F24 adj. EPS at $4.47, toward the midpoint of CLX's F24 guidance of $4.30-$4.80. In mid-December, we upgraded shares of CLX to Neutral from Underperform and raised our PO to $150 from $120 prior.

Key considerations: We expect CLX to see FQ2 gross margins similar to FQ1 as the company despite initial expectations for a sequential decline in FQ2 on higher shipping costs due to better volume recovery. Moving forward, while we acknowledge CLX's inventory replenishment post cyberattack, we continue to monitor volume trends in Nielsen data which continue to show -MSD declines, potentially challenging a further recovery. We are aware of greater brand investment from peers which may put pressure on CLX to spend more on marketing and/or promotions.

Investment thesis: We rate CLX shares Neutral and raised our PO to $150. Our valuation reflects a 21x P/E multiple on our CY25e EPS of $7.22. We see a recovery in volume and shelf space taking shape following impacts from the cyberattack, which we expect will allow Clorox to return to its annual growth rate of +3-5% from its Ignite strategy in F25/F26. We believe initial signs are encouraging and see a balanced risk/reward ahead as Clorox continues to expect a mild recession in F2H24, or early calendar 2024, which may put pressure on consumers. We see potential upside revisions to gross margins in the event of improving cost inflation coupled with further cost savings benefits.

Coty Inc. (COTY), Buy, reports F2Q24 post-close on Feb. 7th

Thoughts ahead of the quarter: We maintain our FQ2 adj. EBITDA estimate at $349m, slightly below consensus at $359m, with flat gross margins. Gross margins are expected to improve in F2H24 due to benefits from inflation softening, mix improvement, and driving consumer beauty margins higher. In FQ1, Coty's saw growth across all verticals and geographies, with particular strength in prestige fragrance, where Coty grew +25%, or 2.5x the category growth of 10%. We continue to see room for upward guidance revisions given the trends in the category.

Key considerations: COTY has already raised its F24 guidance twice this fiscal year due to strong category trends continuing. Coty expects F24 organic revenue growth of +9-11% and organic revenue growth of +11-13% for 1H24. Coty anticipates adj. EBITDA of $1080-$1090m, with steady improvement in gross margin expansion, and flattish gross margin in FQ2. Coty and its partners have decided to pause the partial sale of its Wella stake, but Coty continues to target the full divestiture by the end of CY25. Coty remains on track to reach its target leverage of ~3x by the end of CY23, ~2.5x by the end of CY24, and ~2x by the end of CY25.

Investment thesis: Our PO of $15 is based on a SOTP valuation for the Prestige and Consumer Beauty segments. We value the Prestige segment at 15x our CY25e EBITDA and Consumer Beauty at 9x our CY25e EBITDA. Our multiples are based on the superior growth profile and margins for Prestige, compared to more limited expansion for Consumer Beauty. Overall, this implies a blended 13x multiple on our CY25e EBITDA, given expected outperformance in multiple growing categories.

e.l.f. Beauty (ELF), Buy, reporting 3Q24 pre-market on Feb. 6th

Thoughts ahead of the quarter: We adjust our FQ3 sales growth estimate to +68% y/y from +65% prior, and our adj. EBITDA estimate to $70m from $64m prior. We recognize that ELF stock has been volatile in the recent weeks due to the anticipated slowdown in sales growth, however, we expect results to outperform in FQ3 on untracked channel growth and a less steep decline in tracked channel growth. Nielsen tracked channel sales are expected to increase between 20% and 50% in FQ3 and FQ4, with FQ3 at the higher end and FQ4 at the lower end. Further, untracked channels continue to accelerate with shelf space gains at Ulta, DTC growth, and international expansion. Moving forward, we see four main pillars for ELF's success: 1) the expectation for ELF to double market share in color cosmetics over the next 4-5 years, 2) expanding ELF Skin, 3) adding distribution for Naturium, and 4) building out an international presence.

Key considerations: ELF raised F24 guidance for a third time in November, expecting net sales of $896-906mm or +55-57% y/y, gross margin of +225bps y/y, and adj. EBITDA of $197-$200mm. We continue to view margin guidance as conservative given benefits from mix and lower transportation costs, partially offset by higher marketing spend at 22-24% of F24 sales. However, we remain mindful of potentially higher transportation costs from China due to the Red Sea risk. For F24, we raise our net sales estimate to +62% y/y from +60% prior and increase adj. EBITDA to $261mm from $250mm prior.

Investment thesis: We reiterate our Buy rating and PO at $190, based on a DCF analysis and implies a 30x CY25e EV/EBITDA multiple. We are encouraged by recent data suggesting better than expected volume growth in tracked channels and expect untracked channels to continue to see outsized growth. We continue to view ELF as an outlier in our Consumer Staples coverage as the company is still in a high growth phase and continues to diversify its portfolio and customer base.

Estee Lauder (EL), Neutral, reporting 2Q24 pre-market on Feb. 5th

Thoughts ahead of the quarter: We forecast unchanged 2Q24 sales and EPS of $4.1bil and $0.50, about -2% and 5c below consensus estimates. For organic sales, we forecast -11% YoY driven by +2% growth in North America (sequentially lower than +8% in 1Q), -21% decline in EMEA (sequentially better than -27%) as travel retail remains depressed, and -7% decline in Asia/Pacific, which is sequentially lower than the -3% decline in 1Q24. Having monitored the inventory rebalancing trajectory in EL's all-important Hainan travel retail channel, our best estimates forecast replenishments later in February.

We lower our estimates for FY24/FY26 as well, reflecting a slower margin recovery trajectory given the slower recovery in China travel retail consumption, whose high-margin purchases tend to lead other channels/segments and correlate highly to total company margin. Leaving sales untouched in the out-years, we now forecast FY25 EBIT margin of 12.6% and EPS of $4.25, down from our prior 15.9% and $5.45. For FY26, we now forecast EBIT margin of 14.5% and EPS of $5.35, down from 16.8% and $6.22, respectively.

Key considerations: We expect to see travel retail sales inflect to YoY growth by 2H24 given the easy comps and what should be replenishment orders to restock shelves now that Asia travel retail, and Hainan in particular, have been winding down higher inventory amid an environment of depressed consumption. We also note that management called out about -100bps of drag from the impact to consumption resulting from conflicts in the Middle-East, which has since grown in scope. This could present a possible source of downward earnings revisions, exacerbated by Red Sea shipping disruptions as well, though we note localized Asia production and R&D thanks to the Shanghai distribution facility and Tokyo innovation center should somewhat brunt these impacts.

Investment thesis: We reiterate our Neutral rating and $150 PO, now reflecting a target P/E multiple of 30x our CY25e EPS estimate, back in line with Estee's historical average absolute multiple. This is a 5x increase from our prior target multiple, which we feel has been warranted by what we see as limited risk of downward revisions from here, with the company having significantly rebased earnings expectations here.

Kimberly-Clark (KMB), Underperform reporting 4Q23 pre-market on Jan. 24th

Thoughts ahead of the quarter: We maintain our Q4 adj. EPS estimate of $1.50, our 2024 EPS at $6.91, and our 2025 EPS at $7.23. We expect pricing benefits to subside through year end, while volumes inflect positively in Q4. Our gross margin estimate of +350bps in 2023 is above management's guidance of +270bps, as we expect some raw material inputs to ease sequentially. KMB has historically relied on a premiumization strategy to sustain organic sales growth, with a greater contribution from pricing vs. volume. We are seeing an uptick in private label penetration of KMB's categories as consumers look for value. In 2024, we believe KMB will need to invest more in its brands with marketing and innovation to support volume growth.

Key considerations: In mid-December, we downgraded shares of KMB to Underperform from Neutral and lowered our PO to $115 from $135 prior. We see potential downside ahead amid: 1) an uncertain volume recovery, 2) input costs moderating earlier in 2023 with less deflationary benefit ahead, 3) elevated manufacturing costs which may persist, 4) strong degree of FORCE cost savings achieved in 2023 primarily from negotiations of materials purchases, 5) strengthening of the US dollar which has led to currency headwinds.

Investment thesis: We rate shares of KMB Neutral with a PO of $115. We value KMB on a 16x P/E multiple on our 2025 EPS of $7.41. While we acknowledge KMB has achieved significant gross margin expansion in 2023 YTD, we see limited expansion moving forward in 2024/2025. In addition, we expect more muted volume growth vs. other HPC peers due to KMB's reliance on price/mix vs. volume to grow organic sales.

Kenvue Inc. (KVUE), Buy, reporting 4Q23 pre-market on Feb. 8th

Thoughts ahead of the quarter: For Q4, we expect organic sales growth of +0.5%, driven by +5.5% price/mix and -5% organic volume. We expect adj. EBITDA of $918b in Q4, and $3.8b in F23. We also lower our 1H24 estimates on organic sales to +0.4% in Q1 and +1.3% in Q2, from 3.4% and 3.5% prior, respectively. We tweaked our estimates lower in Q4 and 1H24 due to incremental challenges on sales in the U.S. with softer sales in self care on cold/cough/flu, while China sales remain weaker as Chinese consumers personally eschew Japanese skin health & beauty brands such as KVUE's Dr. Ci:Labo. We also note FX impacts due to the devaluation of the Argentine Peso, and we estimate Argentina to be LSD % of revenue. We look for signs of distribution growth although management expects to see a fuller recovery in mid-2024 while driving velocity in SKUs. Looking ahead, we expect that on a more normalized basis, KVUE will derive two-thirds of its organic sales growth from volume and one-third of its organic sales growth from pricing in 2024 and 2025.

Key considerations: A significant overhang has been lifted with the Judge's dismissal of potential acetaminophen litigation as there was evidence of causation between in utero exposure of acetaminophen and the risk of ASD/ADHD. Investors are now re-focusing on fundamentals which are expected to be challenging through 1H24 due to softer sales in self care and skin health and beauty, prior to a recovery in the back half. We do not expect incremental pricing benefits in 2024 and look for volumes to inflect positively. Kenvue has a long history of product innovation and premiumization, and we expect to hear commentary on the company's upcoming product pipeline. Kenvue also has a history of making acquisitions to enhance its portfolio and may provide further details if an opportunity arises.

Investment thesis: Our price objective of $26 for Kenvue (KVUE) shares is based on a CY25e EV/EBITDA multiple of 13.5x. This is a slight discount to the average of publicly traded household and personal care peers. In our view, this multiple is warranted as the company has best-in-class assets and we expect to see steady growth in sales and margin expansion, while considering separation and execution risk as a standalone entity. Looking ahead, we expect several secular trends to benefit the consumer health category, including: 1) premiumization from innovation to reflect shifting values and unmet consumer needs, 2) an aging population in developed markets with unique needs, and 3) a growing middle class in emerging markets focused on health and wellness.

The Procter & Gamble Co (PG), Buy, reporting 2Q24 pre-market on Jan. 23rd

Thoughts ahead of the quarter: We maintain our 2Q estimates for organic sales of +3.7% driven entirely by price, with relatively flat volume and mix impacts. For the year, we continue to forecast +5% organic sales growth. Our 2Q estimate factors organic sales by segment as follows: Beauty growth of +3% (organic volume decline of -1% driven in part by SKII weakness in travel retail channels); Grooming growth of +5% YoY with a return to volume growth contributing +200bps; Health Care growth of +5%, slowing sequentially due to tougher volume comps in 2Q; Fabric/Home Care growth of +5% driven by a combo of price and mix, with flat volume; and Baby/Feminine/Family Care growth of +1% YoY, slowing sequentially as the segment begins to lag four strong quarters previously. We reiterate EPS of $1.68, 3c below consensus, and our FY24 EPS of $6.36, -7c lower than Street.

Key considerations: We see PG topline as relatively stable, with the company leveraging its strong portfolio of daily-use products to take effective pricing, with multiple entry point prices to protect volumes. We see little risk of PG missing our 2Q gross margin of 50.3% but look to updated guidance on FX impacts and potential drag from Red Sea freight costs nonetheless. PG's COGS exposure is concentrated in volatile oil-related inputs like resin and diesel, but should be insulated from downside pressure in FY24 given the 6-9mo flowthrough to their P&L, as well as added flexibility from accelerating cost-savings plans the company has been able to stand up in the wake of abating COVID constraints on their supply chain.

Investment thesis: We reiterate our Buy rating and $175 PO, reflecting an unchanged CY25e P/E multiple of 24x. This target multiple represents a 22% premium to S5HOUS peers, warranted in our view by a best-in-class portfolio and pricing strategy that has allowed PG to command respectable, growing market share in its categories, both in the US and international.

Price objective basis & risk

BellRing Brands Inc (BRBR)

Our $65 PO is based on 34x our CY25 EPS estimate, which is ahead of its peer group. In our view, this is justified as BellRing is poised for future growth given its strength in consumer interest illustrated by its optimistic scanner data which is supported by continued volume growth from production scale up, promotional activity and planned ramp in marketing spend.

Upside risks are: 1) larger and more efficient production scale up with improvements in shipping abilities and load-n to e-commerce channels, driving volume strength for BRBR, 2) stronger return on advertising and promotions also driving volume strength, 3) continued declines in protein costs.

Downside risks are: 1) slower ramp from its third party supplier to dampen volume growth, 2) weaker than expected positive consumer reaction to ramp up in marketing and promotional activities, 3) protein costs accelerating.

Celsius Holdings Inc (CELH)

Our $65 PO is derived using a DCF that factors our quarterly model estimates through 2026 and topline and EBITDA CAGRs of 26% and 29% between FY25-FY30, discounted by a 10.3% WACC (prior 10.9%), on a slightly lower beta of 1.29 (prior 1.31) still using a 4% terminal growth rate. Our PO now implies a CY25e EV/EBITDA multiple of 30x vs prior 31x, down 1x from our prior target valuation to reflect higher competitive pressure, bringing the valuation to a 51% premium relative to Monster Energy, above their 1yr average premium of 37%. We believe CELH's premium multiple is justified by clear readthrough to healthier velocity and share trends, considerable volume- and efficiency-driven margin expansion potential helped by scale and continuing integration into Pepsi's distribution system. Balancing our view, Energy Drinks are a highly competitive category with low barriers to entry that have seen multiple similarly-positioned products come to market which could challenge Celsius' single-product offering in the future.

Risks to the downside are potential for consumer migration to competitor products, inability to secure incremental shelf space, and potential margin pressure related to aluminum and freight costs.

Risks to the upside are faster distribution expansion, accelerated growth in international markets, and better-than-expected efficiencies as CELH moves into its first full fiscal year of integration within Pepsi's distribution system and annual planning.

Church & Dwight (CHD)

Our $100 PO for CHD shares is based on a CY25e P/E ratio of 26x, a premium to the company's 10-year average P/E multiple of 24x. We believe this multiple appropriately balances organic sales growth, partially offset by investment spending to aid distribution growth and volume recovery.

Upside risks to our price objective are: 1) greater capture of value sales supported by investment spend, 2) little or no market share gains by private label exposure (only 5 of CHD's 18 categories), 3) e-commerce as a percent of sales continues to grow, helping to diversify distribution outlets, 4) strong free cash flow conversion, enabling CHD to return capital to shareholders or pursue M&A.

Downside risks to our price objective are: 1) a weakening consumer environment leading to lower volume demand elasticities, 2) increased cost inflation and limited pricing power near-term, 3) supply chain issues leading to lower fill rates and an inability to change mix/packaging sizes, 4) retailer inventory reductions amid a shift in demand to lower cost products, 5) a pullback in marketing spend leading to market share declines.

Clorox (CLX)
Our $150 PO for CLX is based on 21x our CY25e EPS. We believe a 21x multiple reflects a balanced risk/reward of volume/margin recovery, and inflation more in-line with the historical average, amid a potentially challenging consumer environment.

Upside risks to our price objective are: 1) success of the IGNITE strategy lifts volumes and sales, 2) a better than expected consumer environment leads to healthy pricing implementation, 3) strong innovation leads to better than expected sales of more premium products, 4) the international portfolio stabilizes with consistent sales growth and expansion, 5) robust demand in CLX's portfolio of products due to a resurgence in COVID-19 or other global health conditions.

Downside risks to our price objective are: 1) demand falling with higher pricing amid an uncertain economic outlook, 2) persistent cost inflation and inability to take further pricing, 3) shifting retailer inventory to private label and lower cost products, and 4) low visibility into margin recovery which is farther out than F24.

Coca-Cola Europacific Partners plc (CCEP)
Our $75 PO is based on 18x our FY25 EPSe vs our 17x FY24 basis previously (we are assuming a EURUSD forecast of 1.05, down from 1.10). On an FY25 basis, our target is up 1x on shifts in the rate environment, and still a 33% discount to the S&P500 Beverage Index. We are confident in CCEP's ability to continue strides made in de-levering the balance sheet given its high cash conversion rate and attractive profit runway over the medium term. Downside risks to our PO: 1) Unable to unlock revenue and profit opportunities in Australia. 2) CCEP unable to pay down debt and remains highly levered. 3) Currency risk. 4) Markets unable to recover from COVID-19 related restrictions. Upside risks to our PO: 1) CCEP discovers additional synergies. 2) Faster than expected debt pay down.

Colgate-Palmolive Company (CL)
Our $90 price objective is based on a CY25e P/E of 24.5x. Our premium multiple factors in US sales inflection, stability in margin and earnings delivery that has taken hold over the last 4-5yrs, and strong volume/pricing power in emerging markets. This target now implies a 15% premium to relative HPC peer average (prior basis implied a +5% premium), still more than a standard deviation above CL's 2yr average relative multiple but within a standard deviation above relative multiple to peers like PG and CHD. This premium reflects CL's defensive portfolio and strong, improving US and international market share, with top and bottom line support from pricing and new cost savings initiatives as unfavorable commodity costs abate and turnaround in developed markets Oral Care share takes hold.

Risks to the downside are increased price competition, particularly from private label, a stronger US$ in light of hyperinflationary currency pressure in Latam, Asia, and Africa, and macro volatility, particularly in emerging markets. Risks to the upside are stronger EM performance, significantly lower commodity costs, and growth ahead of category.

Coty Inc. (COTY)
Our PO of $15 is based on a SOTP valuation for the Prestige and Consumer Beauty segments. We value the Prestige segment at 15x our CY25e EBITDA (down from 17x prior) and Consumer Beauty at 9x our CY25e EBITDA down from 10x prior), given the superior growth profile and margins for Prestige, compared to more limited expansion for Consumer Beauty. Overall, this implies a blended 13x multiple on our CY25e EBITDA, given expected outperformance in multiple growing categories.

Downside risks to our price objective are: 1) Coty relies on exclusive license agreements to provide the majority of revenues, 2) the beauty industry is highly competitive, with significant brand and reputational risk, 3) leverage remains high and limits strategic

M&A, 4) COTY is a "controlled" company, with JAB Cosmetics owning more than 50% of total voting power.

Dole plc (DOLE)

Our $10 PO is based on 4.9x EV/EBITDA our CY25 estimate, which represents a discount to its closest produce company peers as well as a discount to the broader food peer group. We believe a discount is warranted given industry volatility.

Upside risks to our PO are incremental adj. EBITDA synergies from the combination of the two businesses and accretive M&A as Total Produce has a strong history of market consolidation.

Downside risks to our PO are weather impacts to crops and consumer demand notably a heat wave across the US and floods in Europe as well as increased inflation in transportation costs.

e.l.f. Beauty (ELF)

Our PO of $190 is based on a DCF analysis and implies a 30x CY25e EV/EBITDA multiple. Our DCF is predicated on a WACC of 9.9% and terminal growth rate of 4%. This is a premium to publicly traded beauty and HPC peers given stronger volume growth, price/mix gains, and market share momentum. We believe this multiple is warranted as the company is still in a high growth phase and continues to diversify its portfolio and customer base.

Downside risks to our price objective are: 1) changing consumer preferences, particularly among younger consumers, 2) difficulty diversifying sales into older demographic groups, 3) operational and geopolitical risk from third-party manufacturing in China. ELF uses several third party suppliers and manufacturers in China to source and manufacture nearly all of its products. Any disruption to their relationships may be detrimental to the company's sales.

Estee Lauder Companies Inc. (EL)

Our $150 PO is based on a target P/E multiple of 30x our CY25e EPS (+5x vs prior target, reflecting what we see as materially rebased earnings at low risk of further downward revision). Our multiple implies a +20% relative premium vs. a group of EL's beauty peers, up from a +5% implied discount previously and near EL's 3yr average premium of 14% as they retool their cost structure and channel exposure in light of what now appears to be a more muted Chinese consumption environment.

Downside risks to our price objective are persistent weakness in developed markets over the long term, a slowdown in EL's faster-growth channels and geographies, higher brand investment needs, recession, prolonged impact of the COVID-19 pandemic, a deceleration in organic sales, subsequent erosion of EL's valuation premium and acquisition of TOM FORD does not materialize. Risks to the upside are faster-then-expected recovery in Makeup, particularly in the US, an accelerated return to global international travel, and middle-class consumption in burgeoning developing markets.

Freshpet, Inc. (FRPT)

Our $100 PO is based on our DCF model and reflects a target CY25e EV/EBITDA multiple of 33.5x (prior 42x off CY24e), now off of a CY25e basis, up 3.5x from our prior target in terms of CY25e EBITDA. In our view, the higher multiple is driven by the lower rate environment and its impact on discount rates and continues to reflect sequentially improving margins and better visibility into cost controls and fixed cost leverage which, alongside consistent double-digit topline growth, provides better visibility into upside vs 2027 targets. This multiple now sits above General Mills' Blue Buffalo deal transaction. We believe this premium is warranted given above-average growth and the lower EBITDA base, helped by clarity around what had been a previously murkier near-term profit outlook. Our DCF model uses a WACC of 7.9% and a terminal growth rate of 3.5%.

Upside risks to our PO are: faster-than-expected distribution gains at retailers, faster-than-expected consumer adoption of products, and higher-than-expected efficiencies from new capacity coming online.

Downside risks to our PO are: capacity coming online takes longer than expected, which could constrain sales targets, inflation and supply costs are higher than expected, competition impedes FRPT household penetration.

Kellanova (K)

Our price objective of $60 is based on 16x our CY25 EPS estimate. This is a premium to center store packaged food peers and a discount to pure play snacking companies. In our view this is appropriate given its sales mix is 60% snacks.

Upside risks are: 1) Snacks portfolio growth accelerates given the more focused portfolio and strategy 2) Margins expand ahead of expectations on over delivery of productivity and sales leverage and 3)

Downside risks are: 1) Non-snacks drags growth more than expected 2) Investor sentiment weakens on the growth prospects for snacking 3) greater than expected trade down to private label in developed markets, and 4) inflation to taper slower than expected and pressuring margins.

Kenvue Inc. (KVUE)

Our price objective of $26 for Kenvue (KVUE) shares is based on a CY25e EV/EBITDA multiple of 13.5x. This is a slight discount to the average of publicly traded household and personal care peers. In our view, this multiple is warranted as the company has best-in-class assets and we expect to see steady growth in sales and margin expansion, while taking into account separation and execution risk as a standalone entity.

Downside risks to our price objective are: 1) separation risk as KVUE has no history of operating as a standalone publicly traded company, 2) brand reputation risk and related litigation, 3) challenges associated with distribution and volume recovery, 4) geographic exposure with 50% of sales outside of North America.

Keurig Dr Pepper (KDP)

Our $38 PO is based on a 18.6x P/E ratio, now off of our FY25 EPS (prior multiple was 19x off FY24 or 18x off FY25) estimate which represents an even multiple with non-alcoholic beverage peers. Our PO now factors in the lower rate environment and still reflects KDP's attractive portfolio that we believe is well equipped to grow sales and earnings, particularly with the addition of the C4 energy drink brand. Potential upside risks to our PO are: 1) Additional synergies. 2) Less volatility in the coffee business. 3) Increased adoption of Keurig brewers/pods. 4) Attractive M&A candidate. Potential downside risks to our PO are: 1) Industry shifts away from single serve coffee, which could lead to slower than anticipated de-leveraging. 2) Weak consumer spending around the holiday season will negatively impact sales of the Keurig brewers.

Kimberly-Clark (KMB)

Our $115 price objective is based on a CY25e P/E ratio of 16x, a discount to the company's 10-year average P/E multiple, due to a longer-term recovery in volumes and market share. On an absolute and relative basis vs. HPC peers, KMB trades below its 2-year forward P/E average of appx. 18x. We see a potentially difficult setup ahead, with current valuation justified by limited organic sales growth on weak volumes as pricing benefits wane, and tempered expectations on gross margin expansion ahead due to input volatility, partially offset by cost savings.

Upside risks to our price objective are: 1) global rising birth rates, 2) continued elevation of brands with accelerated market share gains in developing and D&E markets, 3) a better than expected consumer environment leading to higher mix of premium products, 4) pricing actions and cost savings more than offset cost inflation, 5) key commodity costs abate.

Downside risks to our price objective are: 1) global declines in birth rates accelerate, 2) erosion in market share due to a challenging consumer environment, 3) difficulty implementing pricing and cost savings initiatives, 4) cost inflation continues to rise in key commodity costs, hampering gross margins.

Kraft Heinz Company (KHC)
Our $42 price objective is based on 13.5x P/E multiple on our CY25 EPS estimate. KHC's current valuation is un-demanding with ability to meet/exceed earnings estimates greater than center-store peers, in our view. KHC's self-help initiatives and more conservative approach set up shares to outperform peers simply by executing.

Upside risks are 1) continued improvement in market share trends and services levels, 2) topline strength driving organic sales growth led by pricing actions and better than expected elasticities, 3) and pricing strength protecting margins could be supported by quicker than expected tapering in inflation.

Downside risks are 1) high inflation to persist longer than expected which pressures margins, 2) if elasticities worsen while pricing simultaneously tapers off organic sales growth could be sandbagged, 3) greater trade down to private label.

Molson Coors Beverage Company (TAP)
Our PO of $72 is based on a 11.8x multiple of our FY25 EPS estimate. At 11.8x, we value TAP shares below its 10-year average forward price to earnings multiple and a discount to brewer peers. We believe this reflects near term share gains, underlying improvement operations balanced against questions about the sustainability of sales growth and market share over time.

Upside risks to our PO: 1) Beer trends in the US pick up. 2) Stronger price realization. 3) Initiatives related to the revitalization plan have a meaningful impact on sales growth.

Downside risks to our PO: 1) Continued lackluster trends in the US and Canada. 2) Revitalization plan is unable to put the business in a better position for the future. 3) Consumer preference for other types of alcohol products (hard seltzers, wine & spirits) grows.

Mondelez International (MDLZ)
Our $82 price objective is based on 22x our CY25 EPS estimate. In our view, a premium multiple is warranted due to 1) portfolio strength given its low exposure to private label vs its peers, categories with elasticities that have held up well in an inflationary environment (snacking) and fast growing geographies, and high market share in their categories, 2) room for revenue acceleration beyond category growth, and 3) good cash flow generation.

Upside risks: 1) incremental pricing actions continue to support topline growth and cover inflationary headwinds, 2) the dollar strength tapering off to reduce the FX impact on topline and margins, and 3) inflation to decelerate at a faster pace than expected.

Downside risks: 1) the dollar continues to show strength for an extended period which could continue to hurt topline, 2) hedging roll-offs to impact margin expansion, 3) higher elasticities as consumer wallets continue to be pressure in an inflationary environment, and 4) rates taper off at a slower rate causing elevated interest expense for a longer period than expected.

Monster Beverage Corporation (MNST)

Our $65 price objective is based on 32.5x our 2025E EPS estimate. At 32.5x, we value MNST shares at a premium to both the large-cap beverage group trading and to other consumer staples growth companies. We believe the premium multiple is warranted, given its faster relative growth and favorable margin structure.

Downside risks: 1) maturing category that could be losing share, 2) limited impact from new product launches 3) slower than expected benefit from international expansion, 4) a rotation from defensive names back into value names 5) greater than expected impact from COVID-19 global headwinds 6) negative currency movements.

PepsiCo (PEP)

Our $210 PO is based on a 24.3x CY25 EPS target multiple estimate, which is a premium to non-alcoholic beverage peers and is justified based on our view that PEP is positioned to deliver against its long-term algorithm and returning cash to shareholders via dividends & share repurchases.

Upside risks to our PO: 1) Low to moderate FX headwinds. 2) Rebase initiatives put the business in a better position for growth. 3) Improving volume/price/mix in soft drinks.

Downside risks to our PO: 1) FX becomes a larger headwind than expected. 2) Frito Lay North America experiences a major decline in volumes due to pricing.

Pilgrim's Pride Corp. (PPC)

Our $32 price objective (PO) is based on 7.5x our 2025e adjusted EBITDA . This compares to PPC's average adjusted EV/EBITDA multiple of roughly 7x and to broiler industry comps which have traded at 6.3x EV/EBITDA historically, but is broadly in line with the companies mid-cycle earnings multiple. We assume CY24 is a roughly mid-cycle earnings year.

Upside risks to our PO: 1) greater than expected move up in chicken prices, 2) improvement in Europe cost structure, 3) lower than expected feed/grain costs.

Downside risks to our PO are: 1) continued overhang from the broiler industry over-production on breast meat pricing 2) difficultly in improving profits in Europe, 3) Mexico volatility, and 4) higher than expected feed/grain costs.

The Coca Cola Company (KO)

Our $68 PO is now based on a target CY25e P/E multiple of 22.4x. Our target multiple implies a 11% premium to non-alcoholic beverage peers, warranted in our view by balanced and resilient organic sales growth supported by their scale and incidence pricing model which has proven to be a tested topline growth lever.

Upside risks to our PO: 1) Strong growth in developed and emerging markets. 2) Weaker US dollar vs. other currencies. 3) Improvement in free cash flow conversion.

Downside risks to our PO: 1) Volatility in developed and emerging markets. 2) EPS headwinds from a stronger dollar. 3) Consumer concerns about sugar and calories.

The Hershey Company (HSY)

Our $195 price objective is based on an unchanged 19x our CY25 EPS estimate. This is justified, in our view, as HSY has a range of dynamics coming into play in FY24 including potential for gross margin pressure and some topline weakness driven by timing and increased demand elasticity, offset by its innovation pipeline coming on-line and low private label exposure compared to its peer set..

Upside risks to our PO are 1) innovation pipeline to drive market share gains in a low private label exposure environment, 2) faster moderation of inflation, particularly in cocoa/sugar 3) elasticities coming in better than expected.

Downside risks to our PO are 1) elevated inflation taking longer than expected to taper off, particularly if cocoa/sugar prices are sticky, 2) competitors taking market share from HSY, 3) negative surprises on packaging, logistics, or special ingredient costs that aren't traditionally hedged by HSY, 4) weaker volume lift from innovation pipeline.

The Procter & Gamble Company (PG)
Our $175 PO is based on a P/E ratio of 24x our CY25e EPS, unchanged on a 2025 basis but shifted one year out from our 26x CY24e basis previously. Our target multiple still implies a 25% premium compared to HPC (Household and Personal Care) peers, above PG's 2yr historical average multiple in line with the index on a fwd 2yr basis. We think this relative valuation vs historical valuation is reasonable given PG's recent multi-year efforts to reaccelerate the business as the company sheds non-core categories and brands, and successfully drove balanced top- and bottom-line growth which has led to resilient market share gains that have held throughout the pandemic.

Risks to our price objective are a slowing in recent sales momentum, adverse competitive responses namely from private label in the coming months, and a return to "risk-on" which would make PG's defensive qualities less attractive

Tyson Foods, Inc. (TSN)
Our $47 PO for TSN shares is based on a CY2025e P/E multiple of roughly 13x. We value TSN in line with its historical mid-cycle earnings range, which we believe is warranted as the downturn in beef and prepared foods challenges skew risk to the downside, in our view, while improvements in chicken could be a more positive offset

Upside risks to our price objective are 1) a faster-than-expected improvement in the company's chicken business, 2) an elongated cattle cycle with higher operating margins, 3) faster-than-expected growth in prepared foods.

Downside risks to our price objective are 1) a slower-than-expected improvement in the company's chicken business, 2) a turn in the cattle cycle leading to lower operating margins, 3) slower-than-expected growth in prepared foods.

Utz Brands (UTZ)
Our $16 PO is based on our 14.0x CY25 EV/EBITDA estimate. At this multiple, we value shares of UTZ at a premium to "platform companies" and companies that compete in the salty snack category given what we believe is an embedded take-out premium.

Upside risks are 1) better pricing to cover inflation than anticipated, 2) faster category/brand growth vs peers and market share gains, 3) better-than-modeled cost synergies from M&A, 4) deflationary cost basket

Downside risks are 1) bigger-than-expected volume hit from price increases, 2) regional brands do not translate nationally, 3) cost synergies do not achieve targets, 4) leverage above peers, 5) inflation continues to accelerate.

WK Kellogg Co (KLG)
We value KLG shares at a price objective of $13.50, which is based on 7.25x EV/EBITDA multiple on our CY25 EBITDA estimate. We believe EV/EBITDA is an appropriate valuation metric for this company given KLG's expectation to increase its leverage profile. At 7.25x, we value KLG at discount to both center store packaged food and KLG

comp set peers. In our view, the discount is justified given KLG's lack of topline growth, expected cash burn and increasing leverage profile as well as dependance on delivering against its margin expansion targets to achieve its 3-year guide.

Upside risks to our PO: 1) better than expected revenue/category growth, 2) faster and/or stronger margin recovery than we are modeling, 3) better cash flow generation/less debt raise which will favor the equity in the enterprise value calculation.

Downside risks to our PO: 1) worse than expected revenue/category decline, 2) slower and/or weaker margin recovery than we are modeling, 3) worse cash flow generation/more debt raised which will be unfavorable to the equity in the enterprise value calculation.

Analyst Certification

We, Bryan D. Spillane, Anna Lizzul and Peter T. Galbo, CFA, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Consumables Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	BellRing Brands Inc	BRBR	BRBR US	Bryan D. Spillane
	Coca-Cola Europacific Partners plc	CCEP	CCEP US	Bryan D. Spillane
	Colgate-Palmolive Company	CL	CL US	Bryan D. Spillane
	Constellation Brands	STZ	STZ US	Bryan D. Spillane
	Coty Inc.	COTY	COTY US	Anna Lizzul
	e.l.f. Beauty	ELF	ELF US	Anna Lizzul
	Freshpet, Inc.	FRPT	FRPT US	Bryan D. Spillane
	Kenvue Inc.	KVUE	KVUE US	Anna Lizzul
	Keurig Dr Pepper	KDP	KDP US	Bryan D. Spillane
	Kraft Heinz Company	KHC	KHC US	Bryan D. Spillane
	Lamb Weston Holdings Inc	LW	LW US	Peter T. Galbo, CFA
	McCormick & Co.	MKC	MKC US	Peter T. Galbo, CFA
	Mondelez International	MDLZ	MDLZ US	Bryan D. Spillane
	Monster Beverage Corporation	MNST	MNST US	Peter T. Galbo, CFA
	PepsiCo	PEP	PEP US	Bryan D. Spillane
	Philip Morris International	PM	PM US	Lisa K. Lewandowski
	Pilgrim's Pride Corp.	PPC	PPC US	Peter T. Galbo, CFA
	The Coca Cola Company	KO	KO US	Bryan D. Spillane
	The Procter & Gamble Company	PG	PG US	Bryan D. Spillane
NEUTRAL				
	Altria Group	MO	MO US	Lisa K. Lewandowski
	Celsius Holdings Inc	CELH	CELH US	Jonathan Keypour
	Church & Dwight	CHD	CHD US	Anna Lizzul
	Clorox	CLX	CLX US	Anna Lizzul
	Conagra Brands, Inc.	CAG	CAG US	Peter T. Galbo, CFA
	Estee Lauder Companies Inc.	EL	EL US	Bryan D. Spillane
	General Mills	GIS	GIS US	Bryan D. Spillane
	JM Smucker Company	SJM	SJM US	Peter T. Galbo, CFA
	Kellanova	K	K US	Peter T. Galbo, CFA
	Molson Coors Beverage Company	TAP	TAP US	Bryan D. Spillane
	The Duckhorn Portfolio, Inc.	NAPA	NAPA US	Peter T. Galbo, CFA
	The Hershey Company	HSY	HSY US	Bryan D. Spillane
	Utz Brands	UTZ	UTZ US	Peter T. Galbo, CFA
	WK Kellogg Co	KLG	KLG US	Peter T. Galbo, CFA
UNDERPERFORM				
	Brown-Forman Corporation	BFB	BF/B US	Bryan D. Spillane
	Campbell Soup Company	CPB	CPB US	Peter T. Galbo, CFA
	Canopy Growth	YWEED	WEED CN	Lisa K. Lewandowski
	Canopy Growth	CGC	CGC US	Lisa K. Lewandowski
	Cronos Group	YCRON	CRON CN	Lisa K. Lewandowski
	Cronos Group	CRON	CRON US	Lisa K. Lewandowski
	Dole plc	DOLE	DOLE US	Bryan D. Spillane
	Herbalife Nutrition Ltd	HLF	HLF US	Anna Lizzul
	Hormel Foods Corp.	HRL	HRL US	Peter T. Galbo, CFA
	Kimberly-Clark	KMB	KMB US	Anna Lizzul
	Tyson Foods, Inc.	TSN	TSN US	Peter T. Galbo, CFA
RSTR				
	The Vita Coco Company, Inc.	COCO	COCO US	Bryan D. Spillane

Disclosures

Important Disclosures

Equity Investment Rating Distribution: Beverages - Alcoholic Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	22	61.11%	Buy	15	68.18%
Hold	6	16.67%	Hold	4	66.67%
Sell	8	22.22%	Sell	2	25.00%

Equity Investment Rating Distribution: Beverages - Soft Drinks Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships R1	Count	Percent
Buy	11	78.57%	Buy	6	54.55%
Hold	0	0.00%	Hold	0	0.00%
Sell	3	21.43%	Sell	1	33.33%

Equity Investment Rating Distribution: Consumer Products Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships R1	Count	Percent
Buy	32	50.00%	Buy	16	50.00%
Hold	19	29.69%	Hold	8	42.11%
Sell	13	20.31%	Sell	7	53.85%

Equity Investment Rating Distribution: Food Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships R1	Count	Percent
Buy	33	49.25%	Buy	16	48.48%
Hold	17	25.37%	Hold	10	58.82%
Sell	17	25.37%	Sell	8	47.06%

Equity Investment Rating Distribution: Tobacco Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships R1	Count	Percent
Buy	3	60.00%	Buy	1	33.33%
Hold	1	20.00%	Hold	0	0.00%
Sell	1	20.00%	Sell	0	0.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships R1	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

R1 Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster R2
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

R2 Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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