

## US Consumer Staples

Thoughts ahead of Jan. qtr end earnings –  
CPB, HRL, NAPA & BF/B

Estimate Change

## Executive summary and positioning thoughts

Below we offer our thoughts on January-end quarter food and beverage companies including CPB, HRL, NAPA & BF/B. We look for incremental color on themes discussed at the [CAGNY conference last week \(see report\)](#).

## CPB – slightly raising adj. EPS for 2Q24 on higher sales

We raise our 2Q24 adj. EPS slightly to \$0.74 from \$0.73, which compares to the Visible Alpha consensus estimate of \$0.77. Our higher earnings estimate is entirely driven by better sales, which reflects a pick-up in scanned channel data during mid/late January as a result of cold weather across the US. We raise volume and lower price assumptions in both the Meals & Beverages and Snacks segments in 2Q24. Our 2Q24 total company organic sales estimate is now -1.5% (prior -1.8%). CPB plans to provide an update on its Direct Store Delivery (DSD) route strategy for Snacks during the 2Q24 earnings call. Additionally, on Feb 13<sup>th</sup>, CPB and SOVO (Sovos Brands) announced that both companies have certified substantial compliance with the second request issued by the Federal Trade Commission (FTC) regarding the pending SOVO acquisition. The certification triggered a 30-day waiting period, expected to expire on March 11, 2024, after which the sale can be finalized within days of the expiration date. SOVO is expected to report 4Q23 results after the close on February 28<sup>th</sup>.

## HRL – maintaining adj. EPS for 1Q24

We maintain our 1Q24 adj. EPS estimate of \$0.34, which is in line with Visible Alpha consensus. HRL's Retail segment likely saw a slight lift in Nielsen scanner data for the month of January given the benefit from cold weather and an easier comparison in data vs the months of November/December. Conversely, we think HRL's Foodservice business was likely negatively impacted during January. We also look to hear an update on thoughts about turkey and pork markets. Lower grain prices and the continued spread of Avian flu (HPAI) should have both benefitted turkey markets/profits, though turkey pricing has not improved in several months.

## BF/B – lowering FY24 EPS on lower sales

We lower our FY24 EPS estimate from \$2.06 to \$2.04 vs Visible Alpha consensus of \$2.03. Our lower EPS forecast is driven by lower organic sales. We now forecast 3Q24 and 4Q24 organic sales growth of +5.4% and +5.3% versus our prior forecast of +7.0% and +7.0%, respectively. We now estimate organic sales by geographic region to arrive at our total company forecast (see Exhibit 9). We assume mid-single-digit growth in the US, low-single-digit growth in developed international markets and sequential slowing in emerging markets in 2H24.

## NAPA – highlighting recent downgrade

We recently downgraded shares of [NAPA from Neutral to Underperform](#), lowered our price objective to \$8 and lowered our 2H24 sales forecast. Our rating change reflects further softening of the premium wine segment. We also highlighted in our downgrade that NAPA will face increasingly difficult sales comparisons in 2H24 (particularly in Decoy & Duckhorn). Our sales and adj. EBITDA estimates remain unchanged.

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## Stock symbol key:

BF/B = Brown-Forman  
CPB = Campbell Soup  
HRL = Hormel Foods  
NAPA = Duckhorn Portfolio

# Key tables

## Exhibit 1: EPS estimate changes

We update our EPS estimates for CPB and BF/B

Ticker	Upcoming quarter			This fiscal year			Next fiscal year			The following fiscal year		
	Old	New	Variance	Old	New	Variance	Old	New	Variance	Old	New	Variance
CPB	\$0.73	\$0.74	\$0.01	\$3.02	\$3.03	\$0.01	\$3.13	\$3.13	\$0.00	\$3.26	\$3.26	\$0.00
BF/B	\$0.62	\$0.61	-\$0.01	\$2.06	\$2.04	-\$0.02	\$2.06	\$2.04	-\$0.02	\$2.19	\$2.17	-\$0.02

Source: BofA Global Research estimates

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## Exhibit 2: BofA EPS estimate versus Visible Alpha Consensus

We compare our EPS estimate versus Visible Alpha Consensus for CPB, BF/B, HRL and NAPA

Ticker	Upcoming quarter			This fiscal year			Next fiscal year			The following fiscal year		
	BofAe	Visible Alpha	Variance	BofAe	Visible Alpha	Variance	BofAe	Visible Alpha	Variance	BofAe	Visible Alpha	Variance
CPB	\$0.74	\$0.77	-\$0.04	\$3.03	\$3.07	-\$0.04	\$3.13	\$3.22	-\$0.09	\$3.26	\$3.36	-\$0.09
BF/B	\$0.61	\$0.57	\$0.05	\$2.04	\$2.03	\$0.01	\$2.04	\$2.10	-\$0.06	\$2.17	\$2.27	-\$0.10
HRL	\$0.34	\$0.34	\$0.00	\$1.57	\$1.55	\$0.02	\$1.65	\$1.64	\$0.01	\$1.90	\$1.81	\$0.09
NAPA	\$0.19	\$0.18	\$0.01	\$0.65	\$0.66	-\$0.01	\$0.68	\$0.72	-\$0.04	\$0.71	\$0.79	-\$0.08

Source: BofA Global Research estimates, Visible Alpha

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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 four weeks ended 2/10/24. We look at volume, pricing and sales trends for both food and beverage companies.

## Exhibit 3: Key packaged food company trends for latest 4-, 12-, 52-week periods

Most companies seeing negative \$ % chg in the latest 4-wk period, excluding BRBR, CPB, FRPT, SJM, SOVO

COMPANIES	% chg (4 wks)			% chg (12 wks)			% chg (52 wks)		
	Dol	Vol	Price	Dol	Vol	Price	Dol	Vol	Price
BellRing Brands	25.4	25.2	0.2	39.9	42.5	-1.9	37.0	27.9	7.1
Campbell Soup Co	0.8	1.3	-0.6	-0.2	0.2	-0.3	1.6	-3.2	5.0
Conagra Inc	-3.0	-0.5	-2.5	-3.9	-2.4	-1.5	-1.5	-5.8	4.6
Dole	-10.8	-7.9	-3.1	-9.9	-6.4	-3.8	-6.1	-7.8	1.8
Freshpet	29.2	23.3	4.8	31.0	24.1	5.5	29.3	19.6	8.1
General Mills	-0.6	-2.2	1.7	-1.6	-3.6	2.0	1.8	-5.0	7.1
Hormel Foods	-2.6	-3.8	1.2	-1.7	-0.6	-1.1	-3.2	-3.4	0.2
The Hershey Co	-3.4	-8.5	5.5	-0.2	-5.8	6.0	4.0	-4.7	9.2
Kellanova	-4.6	-8.2	3.9	-4.4	-8.2	4.2	-0.6	-8.5	8.6
WK Kellogg Co	-2.1	-7.2	5.5	-2.4	-8.1	6.2	3.2	-8.4	12.7
The Kraft Heinz Co	-3.1	-3.9	0.8	-1.6	-2.9	1.3	-0.7	-7.0	6.7
Lamb Weston	-10.9	-15.0	4.9	-8.1	-13.7	6.4	12.3	-2.6	15.3
Mondelez International	-3.0	-3.6	0.7	-0.9	-1.8	0.9	4.8	-1.0	5.9
McCormick & Co Inc	-1.2	-3.6	2.5	-2.3	-3.7	1.4	0.8	-3.7	4.7
J. M. Smucker	0.4	0.6	-0.2	0.7	0.8	-0.2	4.7	-0.9	5.7
Sovos Brands	20.8	17.4	2.9	25.0	19.5	4.5	21.9	16.4	4.7
Tyson Foods Inc	-3.4	-1.2	-2.3	-3.5	-1.0	-2.6	-0.1	1.4	-1.5

Source: NielsenIQ

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**Exhibit 4: Year over year change in volume, price/mix and sales by company**

Companies that saw price/mix and volumes increase for the latest 4-week period: COCO, CELH, STZ, TAP and NAPA

	4 week			12 week			52 week		
Non-alcohol	Vol change	Price/mix change	Sales change	Vol change	Price/mix change	Sales change	Vol change	Price/mix change	Sales change
COCO - coconut water	3.4%	1.4%	4.8%	8.5%	0.8%	9.4%	12.1%	4.3%	17.0%
KDP - K cups	-8.5%	-0.9%	-9.2%	-6.8%	-1.7%	-8.4%	-7.3%	1.6%	-5.8%
KDP - refreshment	-4.7%	4.6%	-0.3%	-3.3%	4.4%	0.9%	-4.0%	10.2%	5.7%
KO - total beverages	-1.0%	2.9%	1.9%	-1.7%	3.5%	1.8%	-3.6%	8.7%	4.8%
PEP - total beverages	-8.8%	7.2%	-2.1%	-8.1%	6.9%	-1.7%	-8.8%	13.0%	3.1%
Energy drinks	Vol change	Price/mix change	Sales change	Vol change	Price/mix change	Sales change	Vol change	Price/mix change	Sales change
Bang	-57.2%	6.7%	-54.4%	-59.6%	6.9%	-56.8%	-66.3%	8.3%	-63.5%
Celsius	80.7%	-3.6%	74.1%	96.3%	-2.4%	91.7%	123.1%	4.1%	132.3%
MNST X Bang	-1.1%	0.8%	-0.4%	0.2%	1.0%	1.2%	1.0%	5.9%	6.9%
Red Bull	-2.1%	5.4%	3.1%	-2.1%	5.2%	3.0%	0.5%	5.5%	6.0%
Beer/FMB/Cider	Vol change	Price/mix change	Sales change	Vol change	Price/mix change	Sales change	Vol change	Price/mix change	Sales change
ABI	-14.8%	0.5%	-14.4%	-14.2%	0.2%	-14.1%	-13.6%	2.9%	-11.0%
SAM	-2.1%	2.1%	-0.1%	-1.5%	2.3%	0.8%	-3.3%	4.1%	0.7%
STZ	4.3%	0.9%	5.3%	8.5%	0.8%	9.3%	7.2%	3.1%	10.6%
TAP	3.7%	1.6%	5.4%	4.9%	1.4%	6.4%	5.9%	4.0%	10.2%
Wine	Vol change	Price/mix change	Sales change	Vol change	Price/mix change	Sales change	Vol change	Price/mix change	Sales change
NAPA	2.4%	0.5%	2.9%	4.3%	0.3%	4.6%	4.7%	1.4%	6.2%
STZ wine	-6.2%	0.8%	-5.5%	-6.0%	2.6%	-3.6%	-6.6%	3.8%	-3.1%
Spirits	Vol change	Price/mix change	Sales change	Vol change	Price/mix change	Sales change	Vol change	Price/mix change	Sales change
BF/B	8.3%	-4.3%	3.6%	6.3%	-3.2%	2.9%	10.8%	-5.1%	5.1%
Salty snacks	Vol change	Price/mix change	Sales change	Vol change	Price/mix change	Sales change	Vol change	Price/mix change	Sales change
PEP (salty snacks)	-2.5%	2.3%	-0.3%	-2.2%	3.5%	1.3%	-1.5%	8.7%	7.0%
UTZ (salty snacks)	3.0%	-0.2%	2.7%	5.2%	-1.5%	3.7%	-0.6%	6.1%	5.5%

Source: NielsenIQ

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## Snapshot views by company

Below we offer our thoughts and expectations for our food and beverage coverage universe for the January-end quarter, highlight where our view may differ from consensus (callouts), and provide a summarized thesis on each stock.

### Campbell Soup (CPB), Underperform, reporting 2Q24, March 6<sup>th</sup> before market

**Thoughts ahead of the quarter:** We slightly raise our 2Q24 adj. EPS to \$0.74 from \$0.73. This compares to Visible Alpha consensus estimate of \$0.77. Our higher earnings estimate is entirely driven by a higher sales estimate. In Meals & Beverages, we raise our volume estimate in 2Q24 to -2% from -4% and lower our price estimate to -1% from flat to reflect better Nielsen data for the 12-wk period ending 27 January 2024 (see table below). In Snacks, we raise our volume estimate to -3% from -4% and lower price to +3.5% from +5%. In January, CPB benefitted from both cold weather and easy comparisons in the scanner data; total company vols for the four weeks ending 27 January were up +6.3% (shelf stable soup +16.2% YoY) compared to the prior-year period ending 28 January 2023 with volumes down -11.6%. Our 2Q24 total company organic sales estimate is now -1.5% (prior-1.8%). We make no other changes to our model.

#### Exhibit 5: 2Q24E CPB BofAe vs Nielsen (12wk pd end 1.27.24)

CPB saw improved scanner data in the 4wk period ending 1.27.24 vs the first 8 weeks of the quarter

	Org. sales	Volume	Pricing
Soups	-1.0%	2.1%	-3.0%
Other Simple Meals	0.6%	-0.2%	0.8%
Beverages	-1.8%	-2.2%	0.5%
Nielsen AMRS SM&B	-2.2%	-0.3%	-1.8%
BofAe AMRS SM&B	-3.0%	-2.0%	-1.0%
Snacks	0.4%	-3.2%	3.7%
Nielsen Global B&S	0.4%	-3.2%	3.7%
BofAe Global B&S	0.5%	-3.0%	3.5%

Source: NielsenIQ

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**Key considerations:** (1) CPB plans to provide an update on its DSD route strategy for Snacks during the 2Q24 earnings call. The strategy is aimed at driving scale, effectiveness and efficiency. CPB spoke to the logistics and tech benefit during its 1Q24 earnings call. (2) On Feb 13<sup>th</sup>, CPB and SOVO announced that both companies have certified substantial compliance with the second request issued by the Federal Trade Commission (FTC) regarding the pending SOVO acquisition. The certification triggered a 30-day waiting period, expected to expire on March 11, 2024, after which the sale can be finalized within days of the expiration date. SOVO is expected to report results after the close on February 28<sup>th</sup>.

**Investment thesis:** We maintain Underperform rating and \$44 PO based on 14x our CY25E EPS, which is a discount to peers as CPB faces tougher growth prospects relative to the group and faces integration risk on the pending SOVO acquisition.

### Hormel Foods (HRL), Underperform, reporting 1Q24, Feb 29<sup>th</sup> before market

**Thoughts ahead of the quarter:** We maintain our 1Q24 adj. EPS estimate of \$0.34, which is in line with Visible Alpha consensus. We model net sales down -2.7% with sales declines in the Retail and International segments and low-single digit growth in Foodservice. Moving down the P&L, we model gross margin of 16.3% and operating margin of 8.8% (both down YoY). On interest expense, as mentioned in our 4Q23 earnings takeaways note, we assume that HRL will re-finance the ~\$950mm of notes due in June at a higher rate, so we model a step up in interest expense in 2H24, but model FY23's quarterly interest expense of ~\$18mm for 1Q24/2Q24.

**Exhibit 6: 1Q24E HRL Retail BofAe vs Nielsen (12wk pd end 1.27.24)**

We are modeling some dislocation between Nielsen scanner data and 1Q24E

	1Q24E		
	Sales	Volume	Pricing
HRL Retail	-4.5%	-2.0%	-2.5%
HRL Nielsen	-1.1%	0.7%	-1.7%

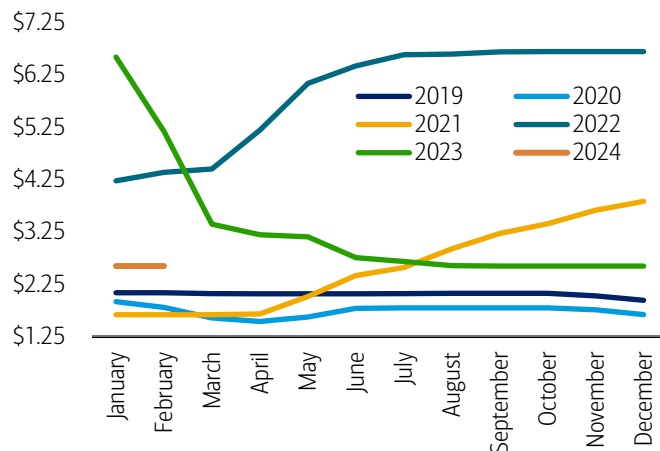
Source: NielsenIQ, BofA Global Research

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**Key considerations:** (1) HRL saw a slight lift in Nielsen scanner data for the month of January given the benefit from cold weather and an easier comparison in the data YoY versus the months of November/December. Conversely, could it have had the opposite effect to Foodservice? Last January also saw strong restaurant traffic as it lapped COVID closures, so January was already lapping tougher comparisons. (2) Protein: We look to hear an update on thoughts about turkey and pork markets. Grain prices have eased, while the continued spread of Avian flu should have both benefitted turkey markets/profits, although turkey pricing has not improved in several months. (3) Avocado prices in 1Q24 are lapping tough comparisons YoY; we look to hear how this flows through to the Megamex business.

**Exhibit 7: UB Turkey Breast – Young Tom, Bnls & Sknls – Fresh (under raw turkey meat)**

Turkey prices has remained flat for several months despite HPAI

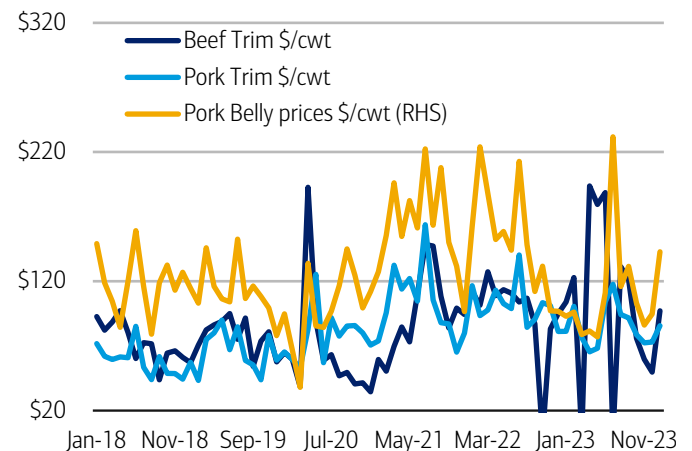


Source: Urner Barry

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**Exhibit 8: USDA key HRL pork/beef input prices**

Pork bellies have re-inflated, while pork/beef trim are deflationary



Source: USDA

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**Investment thesis:** We maintain our Underperform rating and \$31 PO based on a CY2025E P/E multiple of roughly 18x. We believe this multiple is warranted given that HRL has diversified into more of a global branded foods company over the years. However, HRL's large exposure to pork as an input cost could limit multiple expansion in the near term, in our view.

**The Duckhorn Portfolio (NAPA), Underperform, reporting 2Q24, March 7<sup>th</sup> after market**

**Thoughts ahead of the quarter:** We maintain our 2Q24 adj. EBITDA forecast of \$40.3mm, which is in line with Visible Alpha consensus of \$40.0mm. Key drivers behind our forecast: (1) Net sales up +3.0% y/y (volumes +2.0% & price/mix +1.0%), which is in line with management's outlook of low-single-digit growth as 2Q sales are being hindered by pull forward of shipments into 1Q and a slowing consumer environment. (2) 54.5% gross margins (Visible Alpha consensus 54.1%) or +100bps higher versus last year. NAPA expects year-over-year gross margin expansion in the first half of this fiscal year and gross margin pressure for the second half. (3) SG&A of \$25.6mm, which is in line with the prior quarter.



**Key considerations:** (1) We recently downgraded shares of NAPA from Neutral to Underperform, lowered our price objective to \$8 and lowered our 2H24 sales forecast. Our rating change reflects further softening of the premium wine segment. We also highlighted in our downgrade report that NAPA will face increasingly difficult sales comparisons in 2H24 (particularly in Decoy & Duckhorn). (2) Update on the U.S. consumer. (3) How would NAPA describe current demand for premium wine and its expectations for the rest of this calendar year and next? (4) How did this holiday selling season compare to others?

**Investment thesis:** We maintain our \$8 PO, which is based on 7.5x our CY25 EPS<sub>e</sub> and in line with where former public wine companies (VinCorp, Golden State Vitners and Robert Mondavi) traded in the early 2000's given variability in crop and poor returns on capital. We believe NAPA should trade at a premium versus those comps given its asset-light nature (only 10% of acreage owned) but recognizing the slowing top line.

### Brown Forman (BF/B), Underperform, reporting 3Q24 on March 6<sup>th</sup> before market

**Thoughts ahead of the quarter:** We lower our 3Q EPS forecast from \$0.62 to \$0.61 as we now expect organic sales to grow +5.4% y/y (previously +7.0%) with volumes -2.6% and price/mix +8.0%. We also lower our 4Q organic sales forecast from +7.0% to +5.3% y/y. We now estimate organic sales by geographic region to arrive at our total company organic sales forecast (see Exhibit 9).

**Key assumptions behind our 2H organic sales forecast include:** (1) U.S. to grow +5.0% y/y. We assume demand for the spirits category to grow +2%, BF/B to gain share and low-single-digit growth from the Gin Mare and Diplomatico acquisitions, which are now in base the base. (2) Developed international to grow +1.0% y/y, which is unchanged versus 2Q24. (3) Emerging markets to grow about +13.5% y/y with sales slowing sequentially.

#### Exhibit 9: Organic sales model for BF/B

Our organic sales model is driven by sales forecast by geographic region

Organic sales growth excluding distributor inventory impact	1Q22	2Q22E	3Q22E	4Q22E	1Q23	2Q23E	3Q23E	4Q23E	1Q24	2Q24E	3Q24E	4Q24E	FY24E
United States	16.0%	-4.0%	6.0%	10.0%	2.0%	6.0%	7.0%	5.0%	2.0%	0.0%	5.0%	5.0%	3.0%
Developed Intl.	12.0%	12.0%	15.0%	13.0%	17.0%	7.0%	9.0%	3.0%	3.0%	1.0%	1.0%	1.0%	1.5%
Emerging	34.0%	16.0%	19.0%	31.0%	26.0%	22.0%	9.0%	27.0%	31.0%	17.0%	14.0%	13.0%	18.8%
Travel Retail	74.0%	54.0%	22.0%	74.0%	60.0%	48.0%	27.0%	41.0%	6.0%	-8.0%	0.0%	0.0%	-0.5%
Non-Branded and Bulk	0.0%	36.0%	18.0%	46.0%	32.0%	28.0%	78.0%	74.0%	21.0%	-25.0%	0.0%	0.0%	-1.0%
<b>Total company</b>	<b>18.0%</b>	<b>6.0%</b>	<b>12.0%</b>	<b>17.0%</b>	<b>12.0%</b>	<b>11.0%</b>	<b>9.0%</b>	<b>10.0%</b>	<b>8.0%</b>	<b>3.0%</b>	<b>5.4%</b>	<b>5.3%</b>	<b>5.5%</b>
Distributor inventory impact	1Q22	2Q22E	3Q22E	4Q22E	1Q23	2Q23E	3Q23E	4Q23E	1Q24	2Q24E	3Q24E	4Q24E	FY24E
United States	4.0%	-10.0%	12.0%	14.0%	5.0%	9.0%	-17.0%	-5.0%	-11.0%	-1.0%	0.0%	0.0%	-3.0%
Developed Intl.	5.0%	-1.0%	2.0%	6.0%	2.0%	2.0%	2.0%	-2.0%	-3.0%	-5.0%	0.0%	0.0%	-2.0%
Emerging	5.0%	-5.0%	12.0%	4.0%	8.0%	-2.0%	15.0%	-9.0%	1.0%	-11.0%	0.0%	0.0%	-2.5%
Travel Retail	-17.0%	-35.0%	76.0%	20.0%	25.0%	1.0%	-5.0%	-25.0%	3.0%	-1.0%	0.0%	0.0%	0.5%
Non-Branded and Bulk	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Total company</b>	<b>4.0%</b>	<b>-8.0%</b>	<b>10.0%</b>	<b>10.0%</b>	<b>5.0%</b>	<b>5.0%</b>	<b>-4.0%</b>	<b>-6.0%</b>	<b>-6.0%</b>	<b>-4.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>-2.5%</b>
Organic sales including distributor inventory impact	1Q22	2Q22E	3Q22E	4Q22E	1Q23	2Q23E	3Q23E	4Q23E	1Q24	2Q24E	3Q24E	4Q24E	FY24E
United States	20.0%	-14.0%	18.0%	24.0%	7.0%	15.0%	-10.0%	0.0%	-9.0%	-1.0%	5.0%	5.0%	0.0%
Developed Intl.	17.0%	11.0%	17.0%	19.0%	19.0%	9.0%	11.0%	1.0%	0.0%	-4.0%	1.0%	1.0%	-0.5%
Emerging	39.0%	11.0%	31.0%	35.0%	34.0%	20.0%	24.0%	18.0%	32.0%	6.0%	14.0%	13.0%	16.3%
Travel Retail	57.0%	19.0%	98.0%	94.0%	85.0%	49.0%	22.0%	16.0%	9.0%	-9.0%	0.0%	0.0%	0.0%
Non-Branded and Bulk	0.0%	36.0%	18.0%	46.0%	32.0%	28.0%	78.0%	74.0%	21.0%	-25.0%	0.0%	0.0%	-1.0%
<b>Total company</b>	<b>22.0%</b>	<b>-2.0%</b>	<b>22.0%</b>	<b>27.0%</b>	<b>17.0%</b>	<b>16.0%</b>	<b>5.0%</b>	<b>4.0%</b>	<b>2.0%</b>	<b>-1.0%</b>	<b>5.4%</b>	<b>5.3%</b>	<b>3.0%</b>

Source: Company reports, BofA Global Research estimates

BofA GLOBAL RESEARCH

**Key drivers behind 3Q EPS forecast of \$0.61 include:** (1) 61.0% gross margins or up +330bps y/y. See Exhibit 10 for our gross margin bridge. (2) Operating expenses of \$345mm or up +5.6% y/y, which is in line with our organic sales forecast. (3) \$72mm of other income from the Finlandia asset sale or \$0.12 of EPS. (4) a 22.0% effective tax rate.

**Exhibit 10: BF/B gross margin bridge**

We model 3Q24 gross margins of 61.0% or up +330bps y/y driven by price/mix (+200bps) and cost/mix (+130bps)

<b>Gross margin bridge</b>	<b>1Q22</b>	<b>2Q22</b>	<b>3Q22</b>	<b>FY2022</b>	<b>1Q23</b>	<b>2Q23</b>	<b>3Q23</b>	<b>FY2023</b>	<b>1Q24</b>	<b>2Q24</b>	<b>3Q24E</b>
<b>Year ago gross margin</b>	<b>61.8%</b>	<b>59.0%</b>	<b>60.4%</b>	<b>60.5%</b>	<b>61.0%</b>	<b>59.4%</b>	<b>60.0%</b>	<b>60.8%</b>	<b>61.8%</b>	<b>56.0%</b>	<b>57.7%</b>
Price/mix	0.9%	-0.9%	1.5%	1.3%	2.3%	2.4%	0.9%	1.8%	2.5%	4.2%	2.0%
Cost/mix	-1.5%	0.4%	-1.8%	-1.3%	-1.8%	-5.6%	-4.7%	-4.1%	-1.0%	0.9%	1.3%
Acquisitions and divestitures	0.3%	0.5%	0.8%	0.5%	0.2%	0.1%	0.1%	0.0%	-0.3%	0.1%	0.0%
FX	-0.4%	0.3%	-0.9%	-0.2%	-1.2%	-1.6%	-0.6%	-1.0%	-0.6%	-0.8%	0.0%
Tariffs	-	-	-	-	1.3%	1.4%	2.0%	1.4%	0.4%	0.2%	0.0%
<b>Gross margins</b>	<b>61.0%</b>	<b>59.4%</b>	<b>60.0%</b>	<b>60.8%</b>	<b>61.8%</b>	<b>56.0%</b>	<b>57.7%</b>	<b>59.0%</b>	<b>62.7%</b>	<b>60.6%</b>	<b>61.0%</b>
<b>4 year- stack</b>											
Price/mix									4.6%	4.6%	4.4%
Cost/mix									-6.7%	-6.2%	-6.6%
Acquisitions and divestitures									0.2%	0.5%	0.4%
FX									-1.9%	-2.6%	-1.1%
Tariffs									1.7%	1.6%	2.0%

Source: Company reports, BofA Global Research estimates

BofA GLOBAL RESEARCH

**Key considerations:** (1) Update on demand for spirits by region and channel. (2) Update on the U.S. consumer. (3) The operating environment in Mexico, which BF/B described as “more challenging” last quarter. (4) Likelihood for gross margin recovery to continue into next year.

**Investment thesis:** Our \$60 PO is based on 28.0x our CY25 EPS estimate. At 28.0x we value shares of BF/BB at about a 20% discount versus its five-year average and believe that is appropriate given that demand for global spirits is normalizing.



**Exhibit 11: Stocks mentioned**

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
BFB	BF/B US	Brown-Forman	US\$ 57	B-3-7
CPB	CPB US	Campbell Soup	US\$ 42.18	B-3-7
HRL	HRL US	Hormel Foods	US\$ 30.45	A-3-7
NAPA	NAPA US	Duckhorn	US\$ 9.49	B-3-9

Source: BofA Global Research

BofA GLOBAL RESEARCH

**Price objective basis & risk****Brown-Forman Corporation (BFB)**

Our \$60 price objective is based on 28.0x our CY25 EPS estimate. At 28.0x we value BF/B at about a 20% discount versus its 5-year average and believe that is appropriate given that global spirit consumption is beginning to show signs of normalization.

Upside risks to our PO: 1) Jack Daniel's Apple contributes more than the expected 100bps to FY20 sales growth and becomes larger than other Jack Daniel flavors (Honey, Fire, etc.). 2) Removal of tariffs. 3) Consumer demand in emerging markets and travel retail return. 4) Increased possibility of M&A activity in spirits. 4) Valuation gap between BFB and other alcoholic beverage manufacturers closes more than anticipated.

Downside risks to our PO: 1) Jack Daniel's Apple does not resonate with consumers. 2) Consumers shift their preference from spirits to hard seltzers, wine and other types of substitutes. 3) Government regulation/taxes/tariffs. 4) Potentially rising costs of production.

**Campbell Soup Company (CPB)**

Our \$44 PO is based on 14x our CY25E EPS, which is a discount to peers. This is a discount to peers as CPB faces tougher growth prospects relative to the group and faces integration risk on the pending SOVO acquisition.

Upside risks to our PO: 1) better-than-expected trends in the soup category, 2) stronger performance for CPB at retailers, leading to share gains in soup, 3) improved execution and performance in snacks, and 4) increased cost savings above targets.

Downside risks to our PO: 1) worse-than-expected trends in the soup category, 2) inability to capture synergies, growth opportunities in snacks, 3) intensified private label penetration in key categories, and 4) increased net inflation driven by higher costs.

**Hormel Foods Corp. (HRL)**

Our \$31 PO for HRL shares is based on a CY2025E P/E multiple of roughly 18x. We believe these multiples are warranted given that HRL has diversified into more of a global branded foods company over the years. However, HRL's large exposure to pork as an input cost could limit multiple expansion in the near term, in our view.

Upside risks to our price objective are: 1) lower than expected input cost inflation and possible deflation in pork, 2) continued strength in Turkey margins given HPAI, 3) bolt-on/large scale M&A not currently factored into our model, 4) upside from the Planters acquisition, 5) improvement in the company's international markets 6) better than expected results in the company's MegaMex JV from lower avocado prices.

Downside risks to our price objective are: 1) greater than expected input cost inflation in pork, 2) a reversion in Turkey profits once HPAI subsides 3) continued weakness in Planters business, 4) deterioration in the company's international markets 5) higher interest rates/refi risk.



**The Duckhorn Portfolio, Inc. (NAPA)**

Our \$8 PO is based on 7.5x our CY25 EPS estimate. This is in line with where former public wine companies (VinCorp, Golden State Vitners and Robert Mondavi) traded in the early 2000's given variability in crop and poor returns on capital. We believe NAPA should trade at a premium versus those comps given its asset light nature (only 10% of acreage owned) but recognizing slowing topline.

Upside risks: 1) NAPA's innovation launch of a low-alc Decoy Sauvignon Blanc, shipping in FY24 which could boost sales in the short run. 2) If the US consumer holds up/strengthens this could benefit Direct to Consumer business for higher end wines that are margin accretive.

Downside risks: 1) further slowing of the premium/luxury wine category, 2) greater sourcing of demand from Spirits relative to wine, 3) agricultural/weather events that could disrupt wine production/supply, 4) price discounting by competitors.

**Analyst Certification**

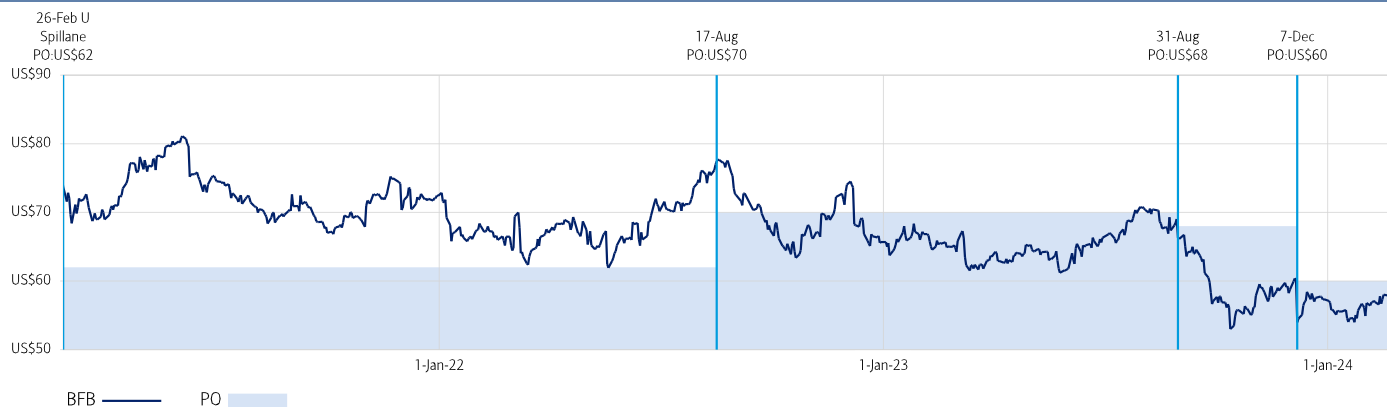
We, Bryan D. Spillane and Peter T. Galbo, CFA, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will 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
<b>BUY</b>				
	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
<b>NEUTRAL</b>				
	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 Hershey Company	HSY	HSY US	Bryan D. Spillane
	Tyson Foods, Inc.	TSN	TSN US	Peter T. Galbo, CFA
	Utz Brands	UTZ	UTZ US	Peter T. Galbo, CFA
	WK Kellogg Co	KLG	KLG US	Peter T. Galbo, CFA
<b>UNDERPERFORM</b>				
	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 Ltd	HLF	HLF US	Anna Lizzul
	Hormel Foods Corp.	HRL	HRL US	Peter T. Galbo, CFA
	Kimberly-Clark	KMB	KMB US	Anna Lizzul
	The Duckhorn Portfolio, Inc.	NAPA	NAPA US	Peter T. Galbo, CFA
<b>RSTR</b>				
	The Vita Coco Company, Inc.	COCO	COCO US	Bryan D. Spillane

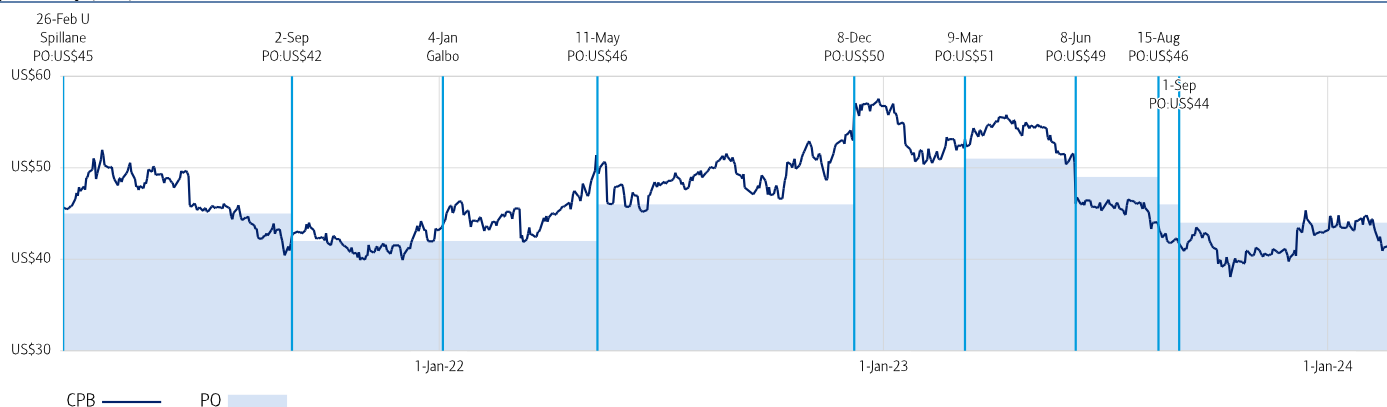
## Disclosures

### Important Disclosures

**Brown-Forman (BFB) Price Chart**

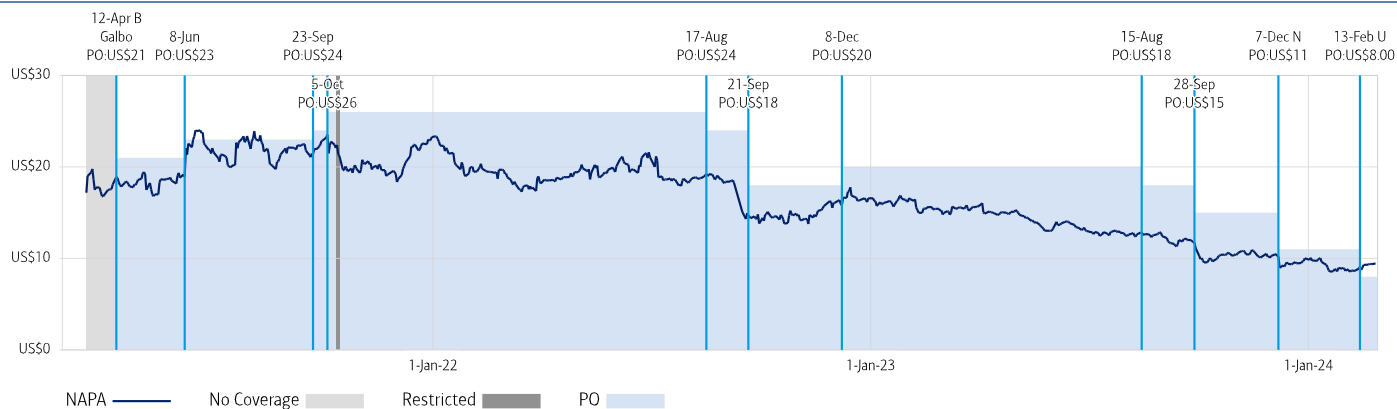
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

**Campbell Soup (CPB) Price Chart**

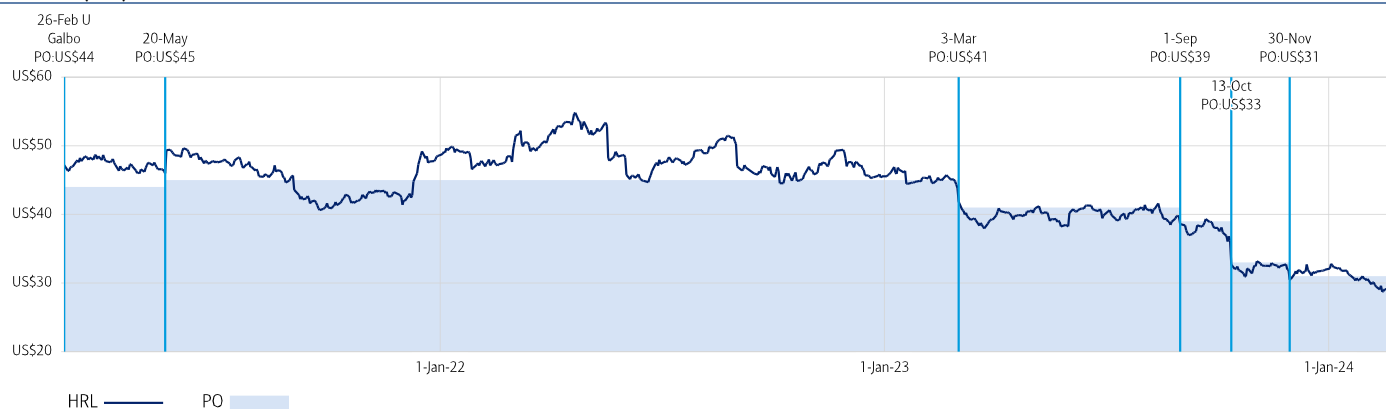
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

**Duckhorn (NAPA) Price Chart**

B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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**Hormel Foods (HRL) Price Chart**

B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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 <sup>R1</sup>	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 <sup>R1</sup>	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 <sup>R1</sup>	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 <sup>R1</sup>	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 <sup>R1</sup>	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%

<sup>R1</sup> 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 <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup>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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