

Campbell Soup Company

With SOVO closing pending, eyes turn to 2H org sales acceleration

Reiterate Rating: UNDERPERFORM | PO: 44.00 USD | Price: 43.30 USD

Raise estimates to reflect flow through of 2Q beat

Yesterday, Campbell Soup Co (CPB) reported 2Q24 earnings above Street on better sales and gross margin ([see our earnings review](#)). In 2H24, CPB expects organic growth that will be entirely volume as pricing benefit has fully lapped. Nielsen Scanner data for February continued to run negative (-1.8%), while we expect offsets from Canada/Foodservice in Meals & Beverage as CPB is looking for flat to +1% organic growth in 3Q total company. We note that CPB expects the Sovos Brands (SOVO) deal to close sometime next week (waiting period expires March 11th), which will be a partial benefit to 3Q and full benefit to 4Q on net sales. All in, we raise our FY24-26 EPS_e to \$3.09, \$3.20, and \$3.33 (prior \$3.03, \$3.13, and \$3.26) which does not reflect any impact from SOVO.

2H24 modeling considerations

On organic sales, CPB expects 3Q to see flat to +1% organic growth with no price benefit, and further sequential improvement in 4Q. For the year, both net and organic sales are expected to be at the low end of its stated ranges. Marketing & Selling is still expected to be at the low end of the 9-10% range, with more spend in 3Q vs 4Q. 3Q Snack margins are expected to be down YoY given the tough prior year comparison (16%). Longer term, CPB expects Snack margins to increase ~100bps per year over the next two years, reaching a 17% target by end of FY26. EPS growth is expected to see sequential improvement, with 3Q EPS expected to be in the low \$0.70s. Current guidance does not reflect the inclusion of SOVO.

DSD: ~20% of routes will be converted to combo routes

CPB provided an update to its network integration and tech upgrades across its Snacking distribution network, with independent distributor DSD (Direct Store Delivery) routes as the next optimization area. No changes are expected for Pepperidge Farm and Snyder's Lance routes where scale supports separate routes, but for some, more efficiency & better execution can be found when combining entire Snacks portfolios into one route. CPB expects to convert ~20% of its Snack routes nationwide into combo routes over the next few years, ~50bps margin benefit through FY26.

Maintain Underperform & \$44 PO

We maintain our Underperform rating & \$44 PO based on ~14x our CY25E EPS, which is a discount to peers. This discount reflects CPB facing tough growth prospects relative to the group, particularly in Soup, and integration risk on the pending SOVO acquisition.

Estimates (Jul) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	2.85	3.00	3.09	3.20	3.33
EPS Change (YoY)	-0.3%	5.3%	3.0%	3.6%	4.1%
Consensus EPS (Bloomberg)			3.06	3.25	3.42
DPS	1.48	1.48	1.48	1.54	1.60
Valuation (Jul)					
P/E	15.2x	14.4x	14.0x	13.5x	13.0x
Dividend Yield	3.4%	3.4%	3.4%	3.6%	3.7%
EV / EBITDA*	11.6x	10.8x	10.6x	10.3x	10.0x
Free Cash Flow Yield*	7.3%	6.0%	6.2%	7.2%	7.7%

* For full definitions of *IQmethod*SM measures, see page 5.

07 March 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	9,359.1	9,312.9
2025E Rev (m)	9,497.5	9,450.6
2026E Rev (m)	9,638.2	9,590.6
2024E EPS	3.03	3.09
2025E EPS	3.13	3.20
2026E EPS	3.26	3.33

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Stock Data

Price	43.30 USD
Price Objective	44.00 USD
Date Established	1-Sep-2023
Investment Opinion	B-3-7
52-Week Range	37.94 USD - 56.04 USD
Mkt Val (mn) / Shares Out (mn)	12,947 USD / 299.0
Free Float	66.0%
Average Daily Value (mn)	121.68 USD
BofA Ticker / Exchange	CPB / NYS
Bloomberg / Reuters	CPB US / CPB.N
ROE (2024E)	23.9%
Net Dbt to Eqty (Jul-2023A)	122.9%
ESGMeter TM	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

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Timestamp: 07 March 2024 05:00AM EST

iQprofileSM Campbell Soup Company

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	10.1%	10.5%	10.5%	10.4%	10.2%
Return on Equity	26.5%	25.8%	23.9%	22.0%	20.3%
Operating Margin	15.1%	14.6%	15.0%	15.3%	15.6%
Free Cash Flow	939	773	809	928	991

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.4x	1.3x	1.4x	1.4x	1.4x
Asset Replacement Ratio	0.7x	1.0x	1.2x	1.1x	1.1x
Tax Rate	22.6%	23.7%	24.0%	24.0%	24.0%
Net Debt-to-Equity Ratio	141.0%	122.9%	102.8%	80.4%	61.6%
Interest Cover	7.0x	7.4x	7.5x	7.7x	8.0x

Income Statement Data (Jul)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	8,562	9,357	9,313	9,451	9,591
% Change	1.0%	9.3%	-0.5%	1.5%	1.5%
Gross Profit	2,691	2,913	2,997	3,071	3,145
% Change	-2.6%	8.2%	2.9%	2.5%	2.4%
EBITDA	1,634	1,753	1,783	1,845	1,898
% Change	-2.3%	7.3%	1.7%	3.4%	2.9%
Net Interest & Other Income	(184)	(184)	(187)	(187)	(187)
Net Income (Adjusted)	861	902	923	956	996
% Change	-1.1%	4.8%	2.3%	3.6%	4.2%

Free Cash Flow Data (Jul)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	861	902	923	956	996
Depreciation & Amortization	337	387	382	400	400
Change in Working Capital	(41)	(216)	(72)	(22)	1
Deferred Taxation Charge	21	(5)	6	0	0
Other Adjustments, Net	3	75	33	15	15
Capital Expenditure	(242)	(370)	(463)	(420)	(420)
Free Cash Flow	939	773	809	928	991
% Change	23.6%	-17.7%	4.6%	14.8%	6.8%
Share / Issue Repurchase	(164)	(120)	(29)	0	0
Cost of Dividends Paid	(451)	(447)	(445)	(460)	(479)
Change in Debt	(277)	(138)	(180)	0	0

Balance Sheet Data (Jul)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	109	189	335	803	1,316
Trade Receivables	541	529	556	588	597
Other Current Assets	1,313	1,343	1,325	1,338	1,352
Property, Plant & Equipment	2,343	2,398	2,480	2,500	2,520
Other Non-Current Assets	7,586	7,599	7,590	7,635	7,680
Total Assets	11,892	12,058	12,286	12,864	13,465
Short-Term Debt	814	191	14	14	14
Other Current Liabilities	2,072	2,031	2,003	2,025	2,049
Long-Term Debt	3,996	4,498	4,506	4,506	4,506
Other Non-Current Liabilities	1,677	1,675	1,693	1,693	1,693
Total Liabilities	8,559	8,395	8,216	8,238	8,262
Total Equity	3,333	3,663	4,070	4,626	5,203
Total Equity & Liabilities	11,892	12,058	12,286	12,864	13,465

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Food Processors

Company Description

Campbell Soup is a leading U.S. processor and marketer of snack, soup, other simple meals, baked goods and healthy beverages. Its portfolio of well-known brands includes Campbell Soup, Pepperidge Farm, V8, Prego, and Snyder's Lance.

Investment Rationale

We rate CPB shares at Underperform, based on our view that CPB face tough growth prospects relative to peers and it remains unclear how underlying growth in the business will track in a more normalized environment. We also see risk to margins from inflationary pressures and a need for investments in the snacks portfolio in the near/medium term.

Stock Data

Average Daily Volume

2,810,272

Quarterly Earnings Estimates

	2023	2024
Q1	1.02A	0.91A
Q2	0.80A	0.80A
Q3	0.68A	0.72E
Q4	0.50A	0.65E

Income statement

Exhibit 1: CPB summary income statement

We raise our FY24 adj. EPS estimate to \$3.09

Income Statement		Oct-22	Jan-23	Apr-23	Jul-23		Oct-23	Jan-24	Apr-24	Jul-24			
(\$ in millions, expect per share data)	F2022	1Q23	2Q23	3Q23	4Q23	F2023	1Q24	2Q24	3Q24E	4Q24E	F2024E	F2025E	F2026E
Sales	\$8,562	\$2,575	\$2,485	\$2,229	\$2,068	\$9,357	\$2,518	\$2,456	\$2,225	\$2,114	\$9,313	\$9,451	\$9,591
Cost Of Goods	5,871	1,746	1,722	1,540	1,436	6,444	1,710	1,684	1,500	1,423	6,316	6,379	6,445
Gross Profit	\$2,691	\$829	\$763	\$689	\$632	\$2,913	\$808	\$772	\$725	\$691	\$2,997	\$3,071	\$3,145
Marketing & Selling	733	201	217	194	194	806	220	216	208	194	839	861	874
Administrative Exp.	597	155	157	154	164	630	150	159	156	163	628	637	646
R&D Exp.	87	21	21	22	25	89	23	24	22	25	94	94	93
Other expenses/(income)	(23)	3	6	6	7	22	8	9	9	10	35	35	35
Operating Income	\$1,297	\$449	\$362	\$313	\$242	\$1,366	\$407	\$364	\$331	\$300	\$1,401	\$1,445	\$1,498
Interest Expense	184	46	45	46	47	184	48	46	46	46	187	187	187
Pretax Income	\$1,113	\$403	\$317	\$267	\$195	\$1,182	\$359	\$318	\$284	\$253	\$1,215	\$1,257	\$1,310
Income Taxes	252	96	76	63	45	280	87	78	68	59	292	302	314
Net Income - Continuing Ex Items	\$861	\$307	\$241	\$204	\$150	\$902	\$272	\$240	\$216	\$195	\$923	\$956	\$996
Net Income - GAAP	\$861	\$307	\$241	\$204	\$150	\$902	\$272	\$240	\$216	\$195	\$923	\$956	\$996
EPS - continuing OPS	\$2.85	\$1.02	\$0.80	\$0.68	\$0.50	\$3.00	\$0.91	\$0.80	\$0.72	\$0.65	\$3.09	\$3.20	\$3.33
Dividend Per Share	\$1.48	\$0.37	\$0.37	\$0.37	\$0.37	\$1.48	\$0.37	\$0.37	\$0.37	\$0.37	\$1.48	\$1.54	\$1.60
Shares Outstanding	303	301	301	301	299	301	299	299	299	299	299	299	299
Margin Analysis													
Gross Margin	31.4%	32.2%	30.7%	30.9%	30.6%	31.1%	32.1%	31.4%	32.6%	32.7%	32.2%	32.5%	32.8%
Marketing & selling % of sales	8.6%	7.8%	8.7%	8.7%	9.4%	8.6%	8.7%	8.8%	9.4%	9.2%	9.0%	9.1%	9.1%
Admin expense % of sales	7.0%	6.0%	6.3%	6.9%	7.9%	6.7%	6.0%	6.5%	7.0%	7.7%	6.7%	6.7%	6.7%
R&D & other expense % of sales	1.0%	0.8%	0.8%	1.0%	1.2%	1.0%	0.9%	1.0%	1.0%	1.2%	1.0%	1.0%	1.0%
Operating profit margin	15.1%	17.4%	14.6%	14.0%	11.7%	14.6%	16.2%	14.8%	14.9%	14.2%	15.0%	15.3%	15.6%
EBITDA margin	19.1%	21.0%	18.0%	18.9%	16.7%	18.7%	20.0%	18.7%	19.1%	18.7%	19.2%	19.5%	19.8%
Pretax income margin	13.0%	15.7%	12.8%	12.0%	9.4%	12.6%	14.3%	12.9%	12.8%	12.0%	13.0%	13.3%	13.7%
Net income margin	10.1%	11.9%	9.7%	9.2%	7.3%	9.6%	10.8%	9.8%	9.7%	9.2%	9.9%	10.1%	10.4%
Tax rate	22.6%	23.8%	24.0%	23.6%	23.1%	23.7%	24.2%	24.5%	24.0%	23.2%	24.0%	24.0%	24.0%
YoY % chg													
Sales	1.0%	15.2%	12.5%	4.6%	4.1%	9.3%	(2.2%)	(1.2%)	(0.2%)	2.2%	(0.5%)	1.5%	1.5%
Gross Profit	(2.6%)	14.0%	13.7%	2.7%	1.6%	8.2%	(2.5%)	1.2%	5.3%	9.4%	2.9%	2.5%	2.4%
Operating Income	(4.4%)	15.4%	13.8%	(2.5%)	(10.0%)	5.3%	(9.4%)	0.6%	5.7%	23.8%	2.6%	3.1%	3.7%
Pretax Income	(3.0%)	17.8%	16.5%	(2.9%)	(12.9%)	6.2%	(10.9%)	0.3%	6.6%	29.9%	2.8%	3.5%	4.2%
Net Income	(1.1%)	13.3%	15.9%	(3.8%)	(11.8%)	4.8%	(11.4%)	(0.4%)	6.0%	29.7%	2.3%	3.6%	4.2%
EPS - Continuing Ex Items	(0.5%)	14.0%	16.6%	(3.5%)	(10.9%)	5.5%	(10.8%)	0.3%	6.7%	29.7%	2.8%	3.6%	4.2%
Credit Analysis													
EBITDA	\$1,634	\$540	\$447	\$421	\$345	\$1,753	\$503	\$460	\$426	\$395	\$1,783	\$1,845	\$1,898
Net debt / Ebitda	2.9x					2.6x					2.3x	2.0x	1.7x

Source: CPB, BofA Global Research estimates

BofA GLOBAL RESEARCH



Price objective basis & risk

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.

Analyst Certification

I, Peter T. Galbo, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my 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 Hershey Company	HSY	HSY US	Bryan D. Spillane
	The Vita Coco Company, Inc.	COCO	COCO 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	KLK	KLK US	Peter T. Galbo, CFA

US - Consumables Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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 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

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

EV / EBITDA

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and valuations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

iQdatabase[®] is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

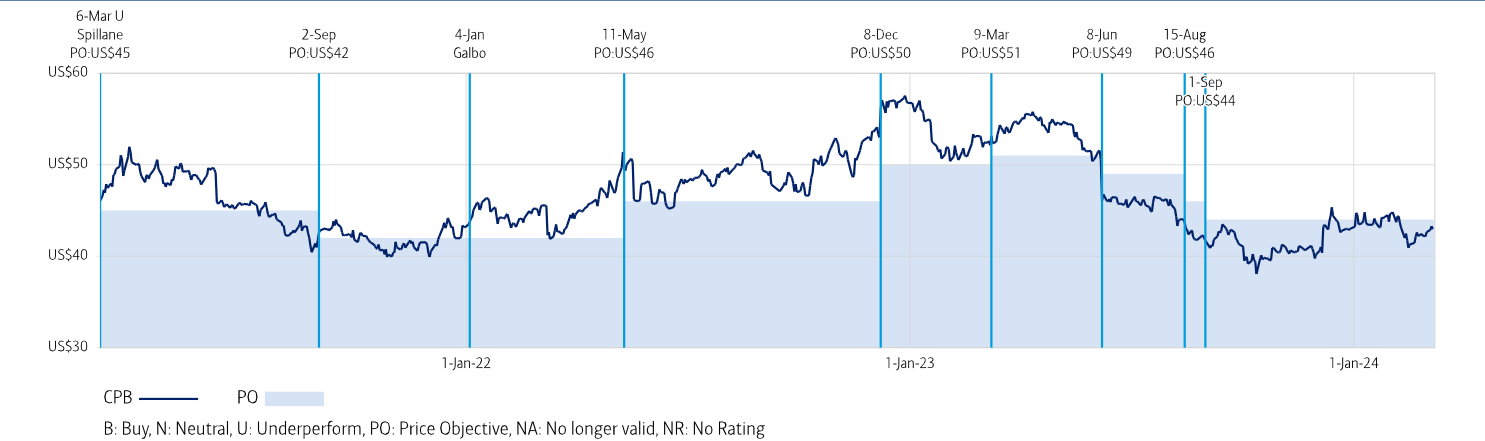
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Disclosures

Important Disclosures

Campbell Soup (CPB) Price Chart



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: 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: 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.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. VOLATILITY RISK RATINGS, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. INVESTMENT RATINGS reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

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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