

Campbell Soup Company

2Q beat on sales and margins; FY24 outlook re-affirmed, sales to low end

Maintain Rating: UNDERPERFORM | PO: 44.00 USD | Price: 42.95 USD

2Q24 adj EPS of \$0.80 above BofAe/consensus

This morning, CPB reported 2Q24 adj EPS of \$0.80 above BofAe of \$0.74 and Visible Alpha consensus of \$0.77. The beat versus our estimate was driven by upside on sales and gross margin. CPB also re-affirmed its FY24 financial outlook including adj EPS in the range of \$3.09-\$3.15. CPB is currently tracking towards the low-end of its sales guide (-0.5 to +1.5%), despite getting a benefit from cold weather and lapping easy prior year compares in January. We note a reversal of strong Jan in the February data. CPB sees potential for upside in 2H24 if consumer recovery accelerates in the back half of the year. CPB also expects to close the SOVO deal likely close next week as the 30-day waiting period is set to expire on March 11th.

Key takeaways: 2Q beat on sales and margin

1) Net sales of \$2.456bn came in \$21mm above of our estimate and total company organic sales of ~-1% YoY were above our estimates driven by slightly better volumes and pricing. Both Meals & Bevs and Snacks sales came in better versus BofAe. 2) Adjusted gross margin of 31.4% was above our estimate by 70bps. 3) Adjusted operating income of \$364mm came \$27mm above our estimate on lower marketing & selling and flow through from upside in gross profit.

FY24 outlook unchanged; EPS in range of \$3.09-\$3.15

CPB re-affirmed its FY24 financial outlook: 1) full year net sales and organic net sales to grow (0.5)% to +1.5% and 0% to 2% respectively, but at the low end. 2) CPB expects adjusted EBIT to grow +3-5% and 3) adjusted EPS in the range of +3-5% to \$3.09 to \$3.15. CPB expects sequential earnings and margin growth in 2H24 which reflects a moderating inflationary environment and on-going productivity improvements.

Maintain Underperform & \$44 PO

We maintain our Underperform rating & \$44 PO 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.

06 March 2024

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Stock Data

Price	42.95 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
Mrkt Val (mn) / Shares Out (mn)	12,842 USD / 299.0
Free Float	66.0%
Average Daily Value (mn)	118.29 USD
BofA Ticker / Exchange	CPB / NYS
Bloomberg / Reuters	CPB US / CPB.N
ROE (2024E)	23.3%
Net Dbt to Eqty (Jul-2023A)	122.9%
ESGMeter™	High

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Timestamp: 06 March 2024 08:08AM EST

Variance table

Exhibit 1: 2Q24 variance table

Adj. EPS of \$0.80 beat BofAe of \$0.74

Income Statement	2Q24A	2Q24E	A vs. E	Per Share	2Q23A	% Chg.
Sales	\$2,456.0	\$2,435.1	\$20.9	\$0.05	\$2,485.0	-1.2%
Cost of Goods	\$1,684.0	\$1,687.6	(\$3.6)	\$0.01	\$1,722.0	-2.2%
Gross Profit	\$772.0	\$747.6	\$24.4	\$0.06	\$763.0	1.2%
Margin	31.4%	30.7%	73 bps		30.7%	
Marketing & Selling	\$216.0	\$222.8	(\$6.8)	\$0.02	\$217.0	-0.5%
Administrative Exp.	\$159.0	\$157.7	\$1.3	(\$0.00)	\$157.0	1.3%
R&D And Other	\$24.0	\$21.9	\$2.1	(\$0.01)	\$21.0	14.3%
Operating Income	\$364.0	\$336.7	\$27.3	\$0.07	\$362.0	0.6%
Margin	14.8%	13.8%			14.6%	
Interest Expense	\$46.0	\$47.1	(\$1.1)	\$0.00	\$45.0	2.2%
Interest Income	\$0.0	\$0.0	\$0.0	\$0.00	\$0.0	
Pretax Income	\$318.0	\$289.6	\$28.4	\$0.07	\$317.0	0.3%
Income Taxes	\$78.0	\$69.5	\$8.5		\$76.0	2.6%
Tax Rate	24.5%	24.0%	0.5%	(\$0.01)	24.0%	
Net Income	\$240.0	\$220.1	\$19.9	\$0.07	\$241.0	-0.4%
Noncontrolling interest	\$0.0	\$0.0	\$0.0	\$0.00	\$0.0	
Net Income to CPB Shareholders	\$240.0	\$220.1	\$19.9	\$0.07	\$241.0	-0.4%
Diluted EPS*	\$0.80	\$0.74	\$0.07	\$0.07	\$0.80	0.3%
Shares Outstanding	299.0	299.0	0.0	\$0.00	301.0	-0.7%
Organic Sales	2Q24A	2Q24E	A vs. E		2Q23A	% Chg.
Base volume/mix	-2.0%	-2.4%	43.3		-1.5%	-54 bps
Price and sales allowances	1.3%	1.0%	35.0		14.2%	-1285 bps
Organic	-0.7%	-1.5%	78.3		12.7%	-1339 bps
Currency	0.0%	0.0%	0.0		-0.4%	36 bps
53rd Week	0.0%	0.0%	0.0		0.0%	0 bps
Acquisitions/Divestitures	-0.5%	-0.5%	0.0		0.0%	-52 bps
% change	-1.2%	-2.0%	78.3		12.3%	-1350 bps
Segment Info	2Q24A	2Q24E	A vs. E		2Q23A	% Chg.
Americas Simple Meals & Beverages	\$1,382.0	\$1,365.8	\$16.2		\$1,408.0	-1.8%
Global Biscuits and Snacks	\$1,074.0	\$1,069.4	\$4.6		\$1,077.0	-0.3%
Total Sales	\$2,456.0	\$2,435.1	\$20.9		\$2,485.0	-1.2%
Americas Simple Meals & Beverages	\$247.0	\$221.1	\$25.9		\$249.0	-0.8%
Global Biscuits and Snacks	\$161.0	\$157.2	\$3.8		\$150.0	7.3%
Corporate	(\$44.0)	(\$41.4)	(\$2.6)		(\$37.0)	18.9%
Total Operating Profit	\$364.0	\$336.9	\$27.1		\$362.0	0.6%
Americas Simple Meals & Beverages	17.9%	16.2%	168		17.7%	19 bps
Global Biscuits and Snacks	15.0%	14.7%	29		13.9%	106 bps
Corporate	-1.8%	-1.7%	-9		-1.5%	-30 bps
Total Operating Margin	14.8%	13.8%	98		14.6%	25 bps

Source: CPB, BofA Global Research

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.

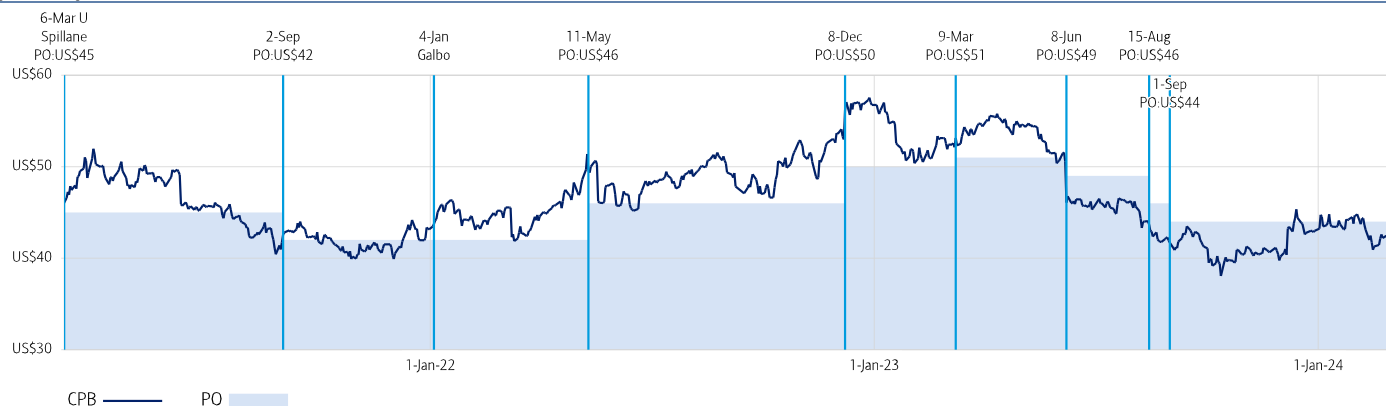
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Campbell Soup (CPB) Price Chart



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

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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)

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Buy	1895	53.62%	Buy	1083	57.15%
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Sell	807	22.84%	Sell	383	47.46%

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Buy	≥ 10%	≤ 70%
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Underperform	N/A	≥ 20%

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