

US Consumer Staples

CAGNY 2024 takeaways

Industry Overview

Key takeaways from CAGNY conference

Last week, we attended the Consumer Analyst Group of New York (CAGNY) meeting in Boca Raton, FL. Presenting companies from our coverage: GIS, CAG, HSY, MDLZ, MKC, KLG, KHC, K, SJM, JBS, KO, TAP, PEP, COTY, PG, CLX, CHD, CL, KVUE, ELF, MO & PM.

Most incremental presentations: KHC clear standout

KHC updated its portfolio matrix moving to three distinct platforms: Growth, Accelerate and Balance. Cream cheese remains in Accelerate while Meats (Oscar Mayer), Cheese (Kraft Slices/Velveeta) and Coffee (Maxwell House/Gevalia) now sit in balance. This raises questions regarding further portfolio re-shaping. See our: [updated sum of the parts](#). **JBS**: a US listing will increase flexibility to raise equity as it contemplates an increased presence in US Prepared Foods. As we outlined in our M&A report a few months ago, we examine the possibility of an Oscar Mayer acquisition (currently owned by KHC). **MKC** is taking a surgical approach to price gaps on products that would be most responsive. **PEP** pointed to intl. markets, where per capita consumption has plenty of room to run vs. US. Functional/Hydration beverages is another area w/ future growth potential as Gatorade explores different formats and usage occasions. On growth potential for **CELH**, while pleased, PEP moderated expectations on pace of intl. expansion & maintaining pace of growth in the US given extraordinary start last year.

Key themes focused on adapting to a changed landscape

Inflation, geo-political unrest and rapidly changing technology are forcing companies to adapt in order to maintain the consistent growth the market has come to expect from Consumer Staples. Key themes: 1) Increased innovation & marketing to re-accelerate volume growth, 2) SNAP benefits more of a headwind than expected in '23/1Q24. Our analysis suggests ([see here](#)) 2Q headwinds abate, 3) M&A interest has picked up as balance sheets are healthy & companies increasingly look to "Self Help" actions to augment growth plans ([click here for Self Help/M&A note](#)) 4) Capabilities (data, AI, tools) were a theme again this year, while companies vary w/ degree of progress, investments are unlocking improved execution/efficiency in marketing, logistics, revenue & other areas. Most companies see investments as scalable (helps with M&A synergy). Investors still sorting out how much of spend is cost of doing business vs incremental to growth/returns.

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.

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Equity
United States
Consumer Staples

Bryan D. Spillane
Research Analyst
BofAS
+1 646 855 1979
bryan.spillane@bofa.com

Peter T. Galbo, CFA
Research Analyst
BofAS
+1 646 743 0175
peter.galbo@bofa.com

Anna Lizzul
Research Analyst
BofAS
+1 646 855 2569
anna.lizzul@bofa.com

Lisa K. Lewandowski
Research Analyst
BofAS
+1 646 855 4647
lisa.lewandowski@bofa.com

Isabella Simonato >>
Research Analyst
Merrill Lynch (Brazil)
+55 11 2188 4243
isabella.simonato@bofa.com

Jonathan Keypour
Research Analyst
BofAS
+1 646 855 4345
jonathan.keypour@bofa.com

Christian Junquera
Research Analyst
BofAS
+1 646 855 5195
christian.junquera@bofa.com

Yasmine Deswandhy
Research Analyst
BofAS
+1 646 855 3745
yasmine.deswandhy@bofa.com

SNAP: Supplemental Nutrition Assistance Program
AI: Artificial Intelligence

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CAGNY Takeaways

General Mills

FY24 outlook re-affirmed; long-term growth through Accelerate strategy

GIS re-affirmed its FY24 financial outlook. Despite navigating through shorter term headwinds, longer term, GIS continues to focus on its Accelerate strategy pillars to drive sustainable growth as well as pet humanization trends, portfolio re-shaping, and tech capabilities. Tailwinds that GIS is currently seeing include moderating inflation offset by ~5% of holistic margin management (HMM) cost savings in FY24 (~4% longer term), stabilizing supply chains and increasing US consumer confidence.

Conagra Brands Inc.

Perpetually reshaping its portfolio and modernizing the supply chain

CAG is in year four of its strategy and expects to return to growth in 2024 while seeing opportunities for meaningful margin expansion, strong cash flow and debt reduction near-term and attractive capital allocation options long-term. Frozen and Snacks domains are aimed to accelerate growth through innovation and distribution expansion, while Staples is intended for cash generation through focused investments and modernization. CAG's long-term financial targets remain unchanged, while the company anticipates generating 100% free cash flow conversion in FY24 (newly presented at CAGNY but in line with 1H achieved results). Divestiture considerations include stranded overhead/earnings dilution which could be meaningful for brands in the Staples platform.

The Hershey Co.

FY24 outlook reiterated; balancing short term with long term aspirations

HSY reiterated its FY24 financial outlook. HSY aims to balance its short term dynamics with longer term aspirations. Innovation, merchandising and unlocking capacity will be key to addressing topline growth, as well as through launching new business models through collaborations (gummies with ambassador Shaquille O'Neal). Price pack architecture will help capture new occasions through new entry level price points, family size trade up and multipack offerings. Recall also that the recently announced Advancing Automation and Agility initiative is expected to generate a run rate of \$300mm in net savings.

Mondelez International

Spotlight North America

Mondelez hold leadership positions in North America with Oreo and Ritz both \$1bn+ brands but there is still an opportunity to capture households, particularly in Tate's, Clif, and Perfect Snacks. After years of focusing on value creation via cost, MDLZ has worked on fixing its foundation to allow the company to move forward and focus on value creation via growth. Achieving its longer term vision requires MDLZ to lean into revenue growth management, capture channel growth opportunities, leverage digital advantage and get bolder in reaching customers. North America biscuits continue to see volume weakness in 1Q, while Europe volumes appear to be trending in-line/above expectations as MDLZ negotiates with retailers ahead of key Easter season.

McCormick & Company

Addressing volume growth strategies, price points, investments, and Heat

MKC's 2026 strategic roadmap continues to be focused on growth and performance. In Consumer, MKC aims to improve volume growth through increased brand marketing, packaging, innovation/R&D, category management (investing in price gaps), and Digital Transformation. The company is planning ~\$80mm in incremental investments across these four platforms in FY24. MKC is taking a surgical approach to price gaps and taking action on products that would be most responsive; actions are only on ~15% of Americas Consumer portfolio (~11% of overall company). The Heat platform continues to be key for MKC (~20% of its portfolio) and MKC discussed new key partnerships with

McDonald's (McSpicy with Frank's in the UK) and Wendy's (Cholula Breakfast Burrito). In Flavor Solutions, MKC expects to grow operating margins by ~80bps in FY24, and ~40bps annually in FY25 and beyond, in-line with long-term implied targets.

WK Kellogg

Focus, Integrate, and Invest to build a strong financial profile

Since its spin, KLG's messaging has remained largely unchanged, with its focus remaining on the following concepts. 1) Driving an integrated commercial plan to win, including launching a new marketing model/introducing innovation, activating a cereal dedicated sale organization and building on portfolio of brands. 2) Modernizing its supply chain through investing capital in tech and automation, consolidating its manufacturing network and building capabilities to derive end to end operating efficiencies.

The Kraft Heinz Company

Portfolio update; what will KHC keep in its Balance platform?

KHC provided arguably the most incremental presentation in Food for the week with new CEO Carlos Abrams-Rivera at the helm. KHC refined the roles of its platforms and now aims to 1) **Accelerate** growth and prioritize investments in Taste Elevations, Easy Ready Meals, and Substantial Snacking, 2) **Protect** profit margins and invest at healthy levels for Desserts and Hydration, and 3) **Balance** performance and invest to maintain brand footprint in Meats, Cheese, and Coffee. Previously, Fast Fresh Meals (Cheese) was categorized within "accelerate". Now, Cream Cheese remains in Accelerate under the Taste Elevation platform, while Slices, and Recipe has been shifted to Balance. Coffee has also been shifted from Stabilize/Protect to Balance. Longer term, KHC expects Accelerate to make up 75%+ of sales, with Protect and Balance making up the remainder, which begs the question of whether certain brands in Balance no longer fit KHC's longer term strategy (Oscar Mayer, for example).

Kellanova

Significant runway for Pringles growth and Africa expansion

Since its acquisition in 2012, Pringles sales have more than doubled while delivering significantly higher margins than the rest of K's portfolio. K still sees significant runway for growth for this brand (from \$3.2bn today to \$4bn vision) which it plans to achieve through capacity expansion (two new plants in Mexico and Thailand), expanding in emerging markets, tapping into all occasions in more channels and utilizing analytics and technology. In addition, K expects Africa to be the next growth frontier for Packaged Foods and believes itself to be well positioned to tap into that growth. K plans to use its Nigeria playbook to expand Noodles into other markets, namely Egypt and South Africa.

J.M. Smucker Co.

FY25 & Hostess considerations outlined

For FY25, SJM highlighted continued momentum in the core, volume/mix benefits, synergies, and stabilization in supply chain offset by inflationary pressures impacting consumer purchasing behaviors and marketing/investments and stranded overhead. As it relates to Hostess, SJM expects "growth in net sales" in F25 (but did not commit to the ~4% LT target), and expects to increase advertising at Hostess by 50% to drive greater household penetration. This is separate from the \$100mm of stated cost synergies expected by end of FY26. Four platforms are key to SJM: 1) Coffee portfolio and expansion in liquid coffee. 2) Uncrustables, expected to achieve \$1bn in annual net sales in FY26. 3) Dog snacks and Cat food. 4) Sweet Baked Snacks, expected to grow at a long-term annual rate of ~4%. SJM will report 3Q24 earnings pre-market this week on February 27th.



JBS SA

Optimistic on chicken and pork; updated on dual listing

In the US, JBS remains optimistic on chicken and pork in 2024, with pork looking more in-line with history. In Beef, JBS sees improving cattle rancher economics and better weather/grazing conditions that could set up for heifer retention to begin in 2024. Separately, JBS is still in talks with the SEC with regards its dual listing although is looking more at the 2H of 2024. JBS believes that a US listing will increase flexibility to raise equity as it contemplates an increased presence in US Prepared Foods. Though the company has been doing bolt-on acquisitions in this space, to move the needle JBS recognizes it would need to look into bigger acquisitions. As we outlined in our M&A report a few months ago and management comments at CAGNY, we examine the possibility of an Oscar Mayer acquisition (currently owned by KHC) given geographic focus and brand exposure

Molson Coors

Focused on maintaining recent U.S. market share gains

Last week TAP came back to CAGNY after a long hiatus. The brewer views 2023 U.S. share gains as “structural” and thus expects to be able to grow total company organic sales low single digits off of the 2023 base. TAP expects to be the biggest beneficiary of this Spring’s shelf resets in the U.S. with average space growing more than 10% for Coors Light, Miller Lite and Coors Banquet. 1Q is expected to see strongest year over year change in organic sales versus the other quarters given 1) TAP still taking market share from the Bud Light and 2) building inventory ahead of the busy summer selling season. TAP has contingency plans at its Fort Worth brewery which went on strike Saturday, February 17th. The brewery produces 8mm barrels of beer and represents 12% of TAP’s total production capacity. Contingency plans went into effect on Monday, February 19th and the brewery has been operational since. TAP has 5 other breweries it can shift volume to if needed.

The Coca-Cola Co.

KO’s “all-weather” platform and growth opportunities by category

Coke CEO James Quincey and CFO John Murphy focused their time highlighting KO’s all-weather strategy, and how they look at growth opportunities across a portfolio that has been tailored to meet consumers at every conceivable beverage opportunity. Coke’s portfolio seemingly falls into two camps based on category: core growth like Zero Sugar or Sprite in NARTD, and selective categories like juices and value-add dairy where KO seeks to take a more surgical approach to brand building and reinvestment. Reiterating the central topic of last year’s CAGNY presentation, KO’s management again framed the opportunity in driving growth of international beverage occasions as a considerable vector of growing the global category and taking share, with a greater focus this year on specific country/category strategies that should help establish narrower, more meaningful benchmarks for brand health across global markets. That being said, Coke also highlighted their relatively low net debt leverage and expressed agility as a priority when it comes to capital allocation, signaling a willingness to pursue inorganic topline growth provided the right opportunity.

PepsiCo Inc.

Calling out country/category opportunities

PEP management used their time at CAGNY to highlight the following growth areas over the medium term that should support reiteration of their algorithm of +4-6% organic sales and high-single digit core constant-currency EPS growth. PEP pointed to

international markets in particular, where per capita consumption has plenty of room to run compared to the US. Over time, PEP also sees good visibility on driving margin expansion by building scale, which they believe they can achieve in their snack business thanks to tight end-to-end control over their system, and in beverages by aggregating local partners across 3-4 markets into a single bottler spanning a contiguous territory.

In the US, PEP highlighted a strong Super Bowl season for 2024 already and see better price/pack flexibility in snacks over beverages – an issue they intend to address with stepped up capex in their North American Beverages segment to build and scale digital platforms and automation that should help improve innovation time-to-market and productivity.

Coty Inc.

Prestige fragrance expected to remain a larger mix of business medium-term

Coty now expects to see prestige fragrance representing mid-50% revenue mix (up from high 40% of sales in F27 from prestige fragrance in CY26 as discussed at CAGNY 2023), with a smaller HSD% contribution from prestige skincare vs. 10% as discussed in the year ago. We view the increased exposure to prestige fragrance as a response to prestige skincare challenged by macroeconomic factors limiting higher growth in the category in geographies such as China and Travel Retail in the near term, however, COTY continues to outperform its expectations on growth in travel retail from a small base. At CAGNY in 2023, COTY set a target to grow Travel Retail by over 50% to \$600m in F26 and is now on track to reach this target a year ahead of schedule, by F25. Emerging markets accounts for 17% of sales with markets including Brazil, Mexico, South Africa, Saudi Arabia, and India. Coty reiterated its long-term targets from CAGNY 2023 for F26 and beyond growth of +6-8% revenue CAGR, expanding gross margin, EBITDA growth at a +9-11% CAGR, and EPS growing at a mid-to-high teens % CAGR. COTY plans to increase its investment in each of its core competencies across fragrance, color cosmetics, and skincare, with R&D spend expected to grow by 1.6x in the next 3-4 years.

The Procter & Gamble Co.

Reiterating their superiority strategy

Aside from reiterating PG's core guiding principle of pursuing superiority across their portfolio, PG management spoke to a handful of upcoming global innovations and marketing strategies and walked through the opportunity they see in using digital tools such as machine learning to help drive overhead reductions in areas like procurement. Nearer-term, PG reiterated caution around soft China performance and weakness in enterprise markets relating in part to mid-east tensions, somewhat tempered by the relatively moderate promotion environment they're seeing across categories in the US and Europe, which remains below pre-COVID levels, though they have seen some increase in promotionality in Mexico and Brazil.

The Clorox Co.

Clorox re-focuses on gross margin rebuild following cyberattack recovery

Clorox has mostly recovered from the August-September 2023 cyberattack, returning to over 90% key customer in stock replenishment with 80% of households recovered, 86% total distribution point loss recovered, with the company now down 5% in distribution points from last year. With much of the cyberattack effects behind the company, the focus returns to Clorox's climb to pre-COVID gross margin. Moving forward, Clorox is trying to accomplish stronger, data enhanced personalized relationships with consumers and customers. To support growth, Clorox has increased its advertising investment levels to ~11% of sales vs. 10% in prior years and is continuing to invest in supply chain and productivity opportunities. Clorox is using data and tech personalization to support increased penetration of its brands with consumers, such as targeting new household formation with starter kit products and targeting current consumers with starter kits with free samples.

Church & Dwight Co.

CHD focuses on core 7 power brands, continues to consider M&A

At CAGNY, CHD announced the company is reducing its external communication of “power brands” from 14 brands to 7 brands, which account for 70% of revenues and profits. These brands include: Arm & Hammer, Oxi Clean, Therabreath, Vitafusion, Hero, Waterpik, and Batiste. Meanwhile, the remaining 7 brands from the original 14 are in categories which are experiencing lower or no growth, with less potential for brand penetration. CHD continued to highlight the success of its acquisitions Therabreath and Hero, the latter of which has more than doubled the total acne care category to \$1.2b from \$500m in just 4-5 years. At its Analyst Day in early February ([see report](#)), CHD raised its Evergreen long-term growth algorithm to +4% organic sales growth which now reflects its average organic growth rate of 4% over the last 10 years. CHD has a strong balance sheet and continues to consider potential acquisitions to add to its power brands after a dry spell in 2023, but is prudent on its decision making process to consider value and opportunity for the long-term.

Colgate-Palmolive Co.

Analytics in the spotlight

CEO Noel Wallace was joined at CAGNY by chief analytics and insights office Diana Schildhouse who provided a view on how CL is using proprietary analytics platforms to improve reaction time, optimize marketing mix, and identify pricing, premiumization and trade-up opportunities within their business. As we heard across most of our companies at CAGNY this year, CL is also employing AI tools to predict consumer trends and generate and test product concepts. Nearer-term, CL signaled durability in their US business despite what remains a challenging market for them now that improved margins have more room to fund reinvestment and see steadier durability in their larger Latin America business ex-Argentina, with a time-tested playbook to manage FX and strong positioning to take advantage of the premiumization opportunity that should materialize once the consumer environment improves there.

Kenvue Inc.

2024 focus on brand acceleration through innovation & reach

At CAGNY, KVUE highlighted its efforts to accelerate its brands following its transformation in 2023. The company intends to accomplish this through: 1) reaching more consumers with more precise marketing, 2) creating distinct brand experiences to lift the entire portfolio by improving the quality of displays, and 3) creating more healthcare professional engagement with key brands including Tylenol, Aveeno, and Listerine. Kenvue has launched 300-400 new innovations each year and plans to continue with this cadence in 2024. Innovation will help fuel shelf space distribution gains, and the company plans to ensure product availability and increase capacity where we see strong volume growth. KVUE reiterated its 2024 guidance and expects flat organic sales growth in Q1, with volumes improving across all segments through the year, with emphasis on the U.S.

e.l.f. Beauty Inc.

Market share gains fueled by further shelf space gains, innovation, productivity

ELF continues to see opportunity for shelf space expansion given underpenetration at Walmart, which should provide a larger opportunity over time as Walmart’s footprint in a supercenter is significantly larger than Target large format stores. Walmart is allocating additional shelf space to ELF this summer as the company continues to catch up to peer retailer penetration. In terms of supply chain, ELF has over 80% of its manufacturing in China, with manufacturing online in both Thailand and Western Europe and Naturium manufacturing in the U.S. ELF sees their manufacturing model as similar to Apple with Foxconn, by perfecting their model in one area and replicating this with others in different regions as they expand. Importantly, ELF does not see a “limit” to its

productivity and is currently the most productive brand on dollars per linear square foot in Target, Walmart, and Ulta.

Altria Group

What did we learn at CAGNY?

Management provided a measured presentation, that underwhelmed many investors we spoke to and reiterated our belief that MO's shift to smoke-free nicotine products will be slow (albeit partly due to the Food & Drug Administration's drawn out progress), illicit trade will remain an issue through 2024 and pending regulatory news regarding menthol and nicotine levels in combustibles will continue to weigh on sentiment.

Highlights of its presentation include: 1) The premarket tobacco applications (PMTA) for on! Plus and Ploom appear to be on track for 1H24 and 2005 submission, respectively. 2) MO plans to expand distribution of NJOY to ~100,000 stores in 2024 and its trade program is expected to enhance its visibility with fixture resets in 1H24. 3) Support spending is expected to make a notable shift from the smokeless segment to "other" (which includes on! outside of the US and NJOY) in 2024. 4) MO plans broader expansion of on! PLUS in Sweden and a targeted launch in the UK this year. 5) MO continues to research non-nicotine adjacencies to drive revenue growth. Market tests in 2023 focused on energy enhancing products such as energy shots and gums. Ten new products are expected to be tested in 2024. 6) To date 28 states have enacted (4) or have pending bills (24) to create directories of FDA approved products that retailers must follow. Early indications in Louisiana show a notable decline in illicit e-vapor volume once retailers are required to submit certifications that they are not selling illicit products. 7) A US International Trade Commission decision re NJOY and JUUL patent infringement claims is not expected before 2025. 8) MO estimates heated tobacco will make up ~5% of the US nicotine space over time. This is below PM's estimate of ~10% and if true, would make the US below average versus many international markets.

Philip Morris International

What did we learn at CAGNY?

Management's highlighted PM's transition to smoke-free products over the last decade and the opportunities going forward, with faster shifts possible, especially if regulators and health officials soften their negative stance on these less harmful alternatives. Nicotine users are clearly looking for alternatives with global category growth rates for heated tobacco (15%+), oral nicotine pouches (30%+) and closed vapor products (10%+) as evidence of demand. Overall, we believe that investors see the benefits of PM's industry leading strategy and vision to shift nicotine users down the risk continuum but would like to see not just organic (FX neutral) growth but US dollar growth and faster profit margin expansion as it reaps from the growing scale of its smokefree business.

Highlights from mgmt.'s presentation include: 1) as disclosed previously, IQOS delivers 2.5x better unit margins than a combustion product and 2x on a product contribution level. In the US, ZYN delivers about 6x on both metrics compared to cigarettes, making ZYN expansion very attractive. 2) Smoke-free products are now available in 84 markets, with 25 of these markets with smoke-free sales already surpassing 50%. 3) Investments and smoke-free brand building will continue (>\$12bn spent to date), notably propelling IQOS to surpass Marlboro sales for the first time in late 2023. 4) A reaffirmed commitment to responsible marketing practices to stem the use of PM's products by youth. 5) PM's mgmt. is beginning a strategic review of its cigar business acquired with Swedish Match. 6) IQOS is on track for its first US city test in 2Q, with a soft rollout anticipated until its ILUMA device/heat sticks are approved by the FDA. 7) Leaf cost inflation and a new single-use plastic tax in the EU will limit gross profit expansion in combustibles this year. 8) FX headwinds will continue to be a factor, although strong growth from Swedish Match in the US (now 10% of total sales) and soon IQOS, will help offset some of the volatility. Other currency risk mitigation includes debt match and

Japanese Yen hedging programs. 9) Red Sea transportation issues appear to be negligible at present.

Exhibit 1: Stocks mentioned

Tickers of the companies mentioned

| Tickers | Company |
|----------------|-----------------------------|
| CAG | Conagra Brands Inc. |
| GIS | General Mills |
| KHC | The Kraft Heinz Co. |
| MDLZ | Mondelez International |
| MKC | McCormick & Co. |
| K | Kellogg Co. |
| SJM | JM Smucker Co. |
| FRPT | Frespet Inc. |
| STZ | Constellation Brands |
| KO | The Coca-Cola Co. |
| PEP | PepsiCo Inc. |
| COTY | Coty Inc. |
| CHD | Church & Dwight Co. |
| CLX | The Clorox Co. |
| CL | Colgate-Palmolive Co. |
| PG | The Procter & Gamble Co. |
| PM | Philip Morris International |
| JBS | JBS S.A. |
| KVUE | Kenvue Inc. |
| ELF | e.l.f. Beauty, Inc. |
| MNST | Monster Beverage Corp |
| BRBR | BellRing Brands Inc |
| STZ | Constellation Brands |
| CCEP | Coca-Cola Europacific |
| LW | Lamb Weston Holdings |
| FRPT | Freshpet Inc |
| KDP | Keurig Dr Pepper Inc |
| TSN | Tyson Foods Inc |
| HRL | Hormel Foods Corp |
| BFB | Brown-Forman Corporation |
| EL | Estee Lauder Companies Inc |
| KMB | = Kimberly-Clark Corp |
| CPB | Campbell Soup Company |

Source: BofA Global Research

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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.

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 24x. 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.

Constellation Brands (STZ)

Our \$290 price objective is based on 19.8x our CY25e EPS that excludes Canopy. At 19.8x we value shares of STZ at the upper end of its valuation range over the past five years given our outlook for strong sales and earnings growth and expectation for more consistent capital allocation going forward.

Upside risks to our PO: 1) Modelo's beer brands continue to grow above current trends. 2) Corona's new products resonate with consumers and drives sales growth. 3) Investment behind certain wine & spirit brands accelerates sales growth and operating margins.

Downside risks to our PO: 1) Hard seltzers cannibalize growth from STZ's beer portfolio. 2) STZ's investment in Canopy takes longer than anticipated to be accretive to EPS than we forecast. 3) Remaining wine & spirits business does not achieve investors' expectations.

e.l.f. Beauty (ELF)

Our PO of \$200 is based on a DCF analysis and implies a 32.5x 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.

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.

Lamb Weston Holdings Inc (LW)

Our \$138 PO is based on a 19.5x P/E multiple on our CY25 EPS estimate. This is a premium to the packaged food index at 17x. We believe a premium is warranted as LW is poised to approach pre-COVID levels with upside potential to improving demand trends and margin potential in FY24.

Potential upside risks: demand rebounds faster than expected, overall category growth remains above 2-3% allowing for tight industry supply to continue in the medium to long term. Tight industry supply allows for further price increase across both global and foodservice customers. Potato costs and cooking oils moderate.

Downside risks: 1) higher-than-expected potato costs for CY23, 2) inability to push through additional pricing to cover inflation and restore margins, 3) influx of new industry capacity, 4) slowdown in on-premise activity if the consumer has less spending power.

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.

Philip Morris International (PM)

Our \$109 price objective (PO) values PM at 15.5x 2025E EPS of \$7.00. This values PM inline with its average of 15.5x since July 2017 when the FDA updated its regulatory strategy towards nicotine. This year is expected to be an investment year in the US, however we think that PM is positioning itself favorably for the long term. We like its attractive yield and strategy to shift smokers to higher-margin, less-harmful alternatives.

Upside risks to our price objective are greater consumer acceptance and conversion of smokers to reduced risk products (RRPs), an improved public health stance towards these reduced risk products, and better-than-anticipated combustible cigarette sales trends.

Downside risks to our price objective are longer-than-anticipated disruption due to the invasion of Ukraine, underwhelming acceptance of RRP into new markets, unfavorable taxation, increased regulatory action, such as smoking bans, health warnings, packaging or display restrictions, as well as a stronger US dollar.

The Coca Cola Company (KO)

Our \$68 PO is based on a target CY25e P/E multiple of 22x. Our target multiple implies an 8% 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.

Analyst Certification

We, Bryan D. Spillane, Anna Lizzul, Isabella Simonato, Lisa K. Lewandowski 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 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 |
| UNDERPERFORM | | | | |
| | Brown-Forman Corporation | BFB | BF/B US | Bryan D. Spillane |
| | Campbell Soup Company | CPB | CPB US | Peter T. Galbo, CFA |
| | Canopy Growth | YWEE | 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 |
| 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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