THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

CPB - Q2 2013 Campbell Soup Company Earnings Conference Call

EVENT DATE/TIME: FEBRUARY 15, 2013 / 3:00PM GMT

OVERVIEW:

CPB reported 1H13 net sales of $4.7b. 2Q13 net sales were $2.3b. 1H13 adjusted EPS was $1.58. 2Q13 adjusted EPS was $0.70. 2013 sales growth guidance is 10-12%.

THOMSON REUTERS

CORPORATE PARTICIPANTS

Jennifer Driscoll *Campbell Soup Company - VP IR*

Denise Morrison *Campbell Soup Company - President, CEO*

Craig Owens *Campbell Soup Company - SVP, CFO, Chief Administrative Officer*

CONFERENCE CALL PARTICIPANTS

Jason English *Goldman Sachs - Analyst*

Thilo Wrede *Jefferies & Company - Analyst*

Eric Katzman *Deutsche Bank - Analyst*

Andrew Lazar *Barclays Capital - Analyst*

Ed Aaron *RBC Capital Markets - Analyst*

Alexia Howard *Sanford C. Bernstein & Company, Inc. - Analyst*

John Baumgartner *Wells Fargo Securities, LLC - Analyst*

David Driscoll *Citigroup - Analyst*

David Palmer *UBS - Analyst*

Chris Growe *Stifel Nicolaus - Analyst*

Jonathan Feeney *Janney Montgomery Scott - Analyst*

Rob Moskow *Credit Suisse - Analyst*

In both places, next week you'll be able to access Campbell's presentation at the CAGNY event, Consumer Analysts Group of New York event, in Boca Raton, Florida. We are presenting at

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Campbell Soup second-quarter earnings conference call. (Operator Instructions). As a reminder, today's conference call is being recorded. I would now like to turn the call over to your host, Jennifer Driscoll, Vice President, Investor Relations. Please begin.

Jennifer Driscoll - *Campbell Soup Company - VP IR*

Thank you. Good morning, everyone. Welcome to the second-quarter earnings call and webcast for Campbell Soup Company.

With me here in New Jersey today are Denise Morrison, our President and CEO; Craig Owens, Senior Vice President, CFO, and Chief Administrative Officer; Anthony DiSilvestro, Senior Vice President of Finance, and [Anna Choi], the new Senior Manager of IR. Welcome, Anna.

Denise will kick us off today with a strategic update, as well as her takeaways from our segment performance. Craig will offer his take on the quarter, our segment results, and our guidance.

As usual, we've created slides to accompany our earnings presentation. You'll find the slides posted on our website this morning at investor. CampbellSoupCompany.com. Please keep in mind that this call is open to members of the media who are participating in listen-only mode.

As a reminder, our presentation today includes forward-looking statements which reflect the Company's current expectations about future plans and performance. Our forward-looking statements rely on a number of assumptions and estimates which could be inaccurate and are subject to inherent risks. Please refer to Slide 3 in the presentation or to our most recent Form 10-K and subsequent SEC filings for a list of the factors that could cause our actual results to vary materially from those anticipated in our forward-looking statements.

Campbell completed the acquisition of Bolthouse Farms one week into the year. The acquisition is now included in our results, and it drove most of the year-over-year changes in the first half.

On September 27, we announced a $115 million pretax restructuring program designed to improve our US supply chain cost structure. Our second-quarter reported results reflect $42 million of pretax costs associated with that program.

Last, we signed commercial agreements with two large companies in Mexico, which we announced yesterday. Accordingly, our reported results for Q2 include a charge of $6 million pretax for that.

Our remarks today for the balance of our presentation will be on an adjusted basis, including Bolthouse Farms' operating results for 25 of the 26 weeks of the first half, but excluding the transaction costs and the restructuring charges.

Since our presentation includes non-GAAP measures as defined by SEC rules, we've provided a reconciliation of the measures to the most directly comparable GAAP measures as an appendix to the slides accompanying our presentation. These slides, along with our earnings release and selective quarterly financial information, can also be found on our website, accessible by computer or with the Campbell IR app.

In both places, next week you'll be able to access Campbell's presentation at the CAGNY event, Consumer Analysts Group of New York event, in Boca Raton, Florida. We are presenting at

30 a.m. Eastern and then hosting the following luncheon. Our presentation and slides will be available afterward in an archive.

And with that, let me now turn the call over to Denise Morrison.

Denise Morrison - *Campbell Soup Company - President, CEO*

Good morning, everyone, and welcome to our second-quarter earnings call.

Today, I will offer my perspective on our performance and discuss specific segment results, highlighting what's working and areas where we face challenges. Additionally, I'll provide an overview of our breakthrough innovation efforts. Finally, I'll touch briefly upon the announcement we have made yesterday afternoon to expand our business in Mexico through access to manufacturing and distribution capabilities that we have not had before. I'll then turn the call over to Craig Owens, Campbell's Chief Financial and Chief Administrative Officer, to provide details on our financial performance.

As I've stated previously, our goal is to drive sustainable, profitable net sales growth. We're putting the consumer first in everything we do at Campbell as we turn around this great company. We're actively listening to consumers and engaging with them to understand their needs, and we're converting our insights into action to delight both our core baby boomers and other growing consumer segments.

I'm also encouraged by the creativity and dedication of our people. All of this is beginning to have a meaningful impact on our business.

We posted solid performance in the second quarter, with net sales up 10% and adjusted net earnings up 6%. Both net sales and EBIT are up 1%, excluding Bolthouse Farms. We achieved this growth while advancing our work on cost controls and productivity improvements across the entire Company. Our laser focus on brand building and innovation has helped drive our sales growth.

Most of our businesses performed well in the quarter. Sales rose in U.S. Simple Meals and in Global Baking and Snacking. The Bolthouse Farms business continues to deliver results consistent with our acquisition plan.

For the first half, with the exception of our U.S. Beverages and North America Foodservice business, our organic sales trends improved in every business relative to its results in fiscal 2012.

We are encouraged by this performance. We believe that we are well positioned to deliver our full-year guidance of net sales up 10% to 12%, adjusted EBIT up 4% to 6%, and adjusted EPS up 3% to 5%.

I'd like to now offer a high-level perspective on our second-quarter results and our reporting segments. I'll start with U.S. Simple Meals, a business that is clearly picking up steam. This business had positive sales and profit growth for both the second quarter and the first half. Sales increases were driven by improvements in dollar consumption and market-share trends. In fact, as the second quarter progressed, consumption outpaced shipments.

Our growth has also resulted in improved total wet soup category performance with dollar consumption increasing over 3% for the category, as well as for Campbell during the quarter. We ended the second quarter with sales up 1% and earnings up 10% and the first half with sales up 2% and earnings up 7% on this large and important business.

This positive trend is largely due to our focus on brand building by optimizing all of the drivers of demand. It reflects continued investments in product taste with new recipes on CampbellKitchen.com and line extensions that have added new, craveable flavors to the base business; new packaging graphics in ready to serve, particularly our Chunky Soup line; refinements in brand positioning across the portfolio; and more effective and efficient marketing and promotion.

Some of you have expressed concerns about our reduction in advertising spending in our soup business. Our advertising spending continues to be at competitive levels and it has also been more effective. For example, in our It's Amazing What Soup Can Do campaign has worked well for Campbell's Condensed soup, but our Chunky brand got lost in this portfolio campaign. Well, Chunky is back to the NFL in a big way and the Mama's Boys campaign is resonating with our male target consumers. In the second quarter, Chunky consumption was up double digits.

Our new breakthrough innovations, specifically Campbell's Go soups in pouches and Campbell's Skillet Sauces, achieved their ACV distribution goals. In December, we turned on the marketing, which was largely digital, and intended to connect with younger consumers. As planned, in the second quarter we invested more in advertising to support these new products innovations.

We are now in the early days of building trial. So far, the repeat is strong and purchases are skewed to the younger consumers, who are the target demographic. While it's still too soon to judge the long-term success of these products, we are encouraged by the early results. These new products are contributing only about 0.5 point of sales growth in the quarter. Over time, we believe these breakthrough product platforms can contribute meaningfully to our growth. In the short term, sustaining innovations, such as the Chunky line extensions, have had even more impact to our growth.

Moving onto Global Baking and Snacking, this segment also posted solid results in the second quarter with organic sales up 6% and earnings up 4%. The Goldfish brand continues its positive momentum, driven by effective brand building and innovation. During the quarter, we increased consumption in our Pepperidge Farm Sweet Snacking business with a successful holiday season. We also delivered better execution and innovation focused on our iconic Milano cookies and on our soft dessert cookies, where seasonal varieties like Pumpkin Cheesecake and Caramel Apple Pie were very successful.

In addition, we gained additional shelf space and merchandising in our Pepperidge Farm fresh bakery business, partially as a result of the Hostess bankruptcy, but also due to better execution, as well as innovation in our line of Swirl Breads. We expect that some of the gains resulting from the Hostess bankruptcy may be temporary, but in the meantime, we will continue to demonstrate what an expanded premium offering with the goodness of Pepperidge Farm can do for our customers and our consumers.

Finally, despite continuing challenges in the retail and consumer environment in Australia, we grew biscuit sales in Asia-Pacific both for the quarter and for the first half.

The Company delivered solid results for the quarter. However, I am disappointed in the sales decline in our U.S. Beverages business and the difficult conditions facing our North America Foodservice business. Although we posted a minus 3% sales decline in our U.S. Beverages business, our earnings grew 9% in the second quarter and we realized 5% earnings growth for the first half. In the quarter, positive earnings were driven by reductions in marketing spending and productivity improvements.

V8 Splash continued to grow, but not enough to offset declines in V8 Original 100% Vegetable Juice and V8 V-Fusion. Sales continue to be adversely affected by intense competitive activity in a sluggish shelf-stable juice category.

We have started to ship our new V8 Original 100% Vegetable Juice with improved taste and new line extensions, such as Hint of Lime and Hint of Pepper. We're also focusing on new innovation in beverages to expand usage occasions with our V8 V-Fusion + Energy drink and juice boxes for kids.

We intend to step up our marketing support in the third quarter, but we recognize that we have more work to do in engaging consumers and managing our costs and expenses to improve the performance of this business.

Our North America Foodservice business suffered from the loss of a significant restaurant customer, higher levels of promotional support, and weaker consumer traffic in restaurants, all of which impacted the business. We are working through these issues. However, we expect to experience further declines in the second half in traditional foodservice, partially offset by growth in our retail fresh soup.

Bolthouse Farms had a good quarter and a good first half with solid performance across all three categories, carrots, super-premium beverages, and salad dressings. Both beverages and salad dressings increased dollar consumption and share. Increases in shelf presence in beverages and new product innovation were the key drivers in increasing same-store sales. Salad dressing continued to benefit from expanded points of distribution, as well as increases in comparative-store sales. The integration is progressing according to our plan.

Before I close, I want to touch on an announcement we made yesterday about our efforts to expand our international presence. We're very pleased to have entered into arrangements with Grupo Jumex and Conservas La Costena, two terrific companies in Mexico. These partnerships will give us expanded access to distribution and manufacturing capabilities that haven't been available to us in Mexico before.

Jumex, the largest producer of fruit juices and nectars in Mexico, will manufacture and distribute Campbell's V8 portfolio throughout the Mexican market. La Costena, one of the largest producers of prepared foods in the country, will manufacture and distribute Campbell soups, broths, and Italian sauces. We believe these arrangements will redefine the scope of our business opportunities in Mexico.

In sum, we've now completed our first half with positive results, and we're looking forward to a second half of continued investment and profitable sales growth. Our leadership team is committed to delivering superior execution in both the base business and in new innovation. We're also continuing to build a robust innovation pipeline for next year. I'll talk about some of that at CAGNY next week and more at our analyst day in July. We look forward to continuing to share our results with you as we focus forward.

Now, I'll turn it over to Craig.

Craig Owens - *Campbell Soup Company - SVP, CFO, Chief Administrative Officer*

Thank you, Denise, and good morning. I'm going to take a few minutes to walk through our second-quarter results and segment highlights, followed by a look at our first-half results, and then wrap up with a look at the full-year sales and earnings guidance.

As Jennifer mentioned, my discussion of results will exclude the impact of all restructuring programs for the current and prior years, as well as the transaction costs associated with the Bolthouse Farms acquisition.

So for the quarter, we reported net sales of $2.3 billion, a 10% increase from the second quarter of 2012, reflecting the impact of Bolthouse Farms. Excluding the acquisition impact, organic net sales increased by 1% in the quarter. Excluding restructuring costs, which impacted both the current and prior-year quarters, adjusted EBIT increased by 5%, or $349 million. Of the adjusted EBIT increase, four points came from adding Bolthouse and one point came from growth in the base business, primarily driven by strong earnings growth in U.S. Simple Meals.

Adjusted earnings per share were $0.70 this quarter, a 9% increase from the second quarter of 2012. The increase reflected EBIT growth, the benefit of a lower tax rate, and fewer shares outstanding, partly offset by higher interest expense related to the acquisition.

Our second-quarter EPS results exceeded our initial expectations. U.S. soup consumption performance exceeded our forecast, more than offsetting unfavorable retailer inventory movements and higher marketing spending behind innovation.

As you can see on slide 21, nine points of the 10% increase in net sales were attributable to the Bolthouse Farms acquisition. Excluding the acquisition, the growth in organic sales reflected pricing contributions of two points and the negative impact of increased promotional spending of one point. The pricing gains primarily reflected our previous list price increase on U.S. condensed soup and increases in Arnott's in Australia and soup in Canada.

The promotional spending variance is primarily due to higher rates of spending in International Simple Meals & Beverages, North America Foodservice, and Pepperidge Farm. We continue to invest to remain competitive in all of these businesses.

Excluding the impact of current quarter restructuring programs, our adjusted gross margin percentage declined by 160 basis points to 36.8%. The decline was primarily attributable to the impact of the acquisition of Bolthouse Farms, which operates with a lower gross margin structure.

Excluding the acquisition, the impacts of cost inflation, increased promotional spending, and unfavorable mix were largely offset by productivity improvements and the benefit of higher selling prices. The inflation rate and cost of goods sold was approximately 3% for the quarter.

Marketing and selling expense was $297 million compared to a year ago -- sorry, comparable to a year ago. Lower advertising and consumer promotion expenses were offset by higher spending to support innovation efforts, higher selling expenses, and the impact of the addition of Bolthouse.

Advertising and consumer promotion expense declined by 14%, primarily due to declines in U.S. Soup and U.S. Beverage. While advertising and consumer promotion expense declined in total, we have significantly increased spending behind new product introductions.

Administrative expenses for the quarter increased $20 million, primarily due to the acquisition and higher compensation and benefit costs, including a significant increase in pension expense.

Below the operating earnings line, net interest expense increased by $5 million. The increase was due to the higher level of debt incurred to fund the acquisition of Bolthouse Farms, partially offset by the favorable impact of lower average interest rates on our total debt portfolio.

The adjusted tax rate declined 190 basis points to 31.8%. Primarily due to the benefit of various tax planning initiatives, we recognized lower taxes on foreign earnings in the current year. With the lower tax rate more than offsetting increased interest expense, adjusted net earnings increased by 6% for the quarter.

We continue to benefit from our strategic share repurchases in fiscal 2012 as earnings per share increased 9% this quarter, reflecting a decline in diluted shares outstanding. Below the operating earnings line, net interest expense increased $5 million. The increase was due to the higher level of debt, as I said earlier, incurred due to the acquisition.

Second-quarter segment sales results and the corresponding organic growth rates are shown in the next slide. Sales of U.S. Simple Meals increased by 1%. Within the segment, U.S. Soup sales rose by 1%, driven by gains in ready-to-serve and condensed soup, partly offset by declines in broth.

THOMSON REUTERS

U.S. Sauce sales were comparable to the prior year as gains in Swanson canned poultry, Campbell's canned pasta, Pace Mexican sauce, and the introduction of Campbell's Skillet Sauces were offset by declines in Prego pasta sauce and Chunky chili.

Our Global Baking and Snacking segment achieved strong organic sales gains, up 6% with increases in both Pepperidge Farm and Arnott's. The sales increase in Pepperidge Farm was driven by growth across fresh bakery, crackers, and cookies. In the bakery business, we benefited from the market exit by Hostess with volume gains across most of the portfolio.

The snacks business had another strong quarter, reflecting solid growth in Goldfish snack crackers and the national launch of Jingos! crackers. Benefiting from a very successful holiday period, we delivered a strong sales performance in cookies.

Sales at Arnott's increased primarily due to sales growth across the portfolio in Australia, including savory crackers, chocolate cookies, and sweet varieties. Indonesia delivered an excellent sales growth performance for the quarter.

Organic sales for International Simple Meals & Beverages were comparable to the prior year. Strong sales gains in Latin America and growth in Canada were offset by declines in the Asia-Pacific region. Sales in Europe were comparable to the prior-year quarter as sales growth in France was offset by lower export sales. In Asia-Pacific, sales decreased due to the declines in Australia and Japan, partly offset by growth in Malaysia.

Sales for the Bolthouse Farms and North America Foodservice segment were $352 million, with Bolthouse contributing $195 million.

Organic sales, excluding the acquisition, declined 10% compared to the year ago. This sales decline in North America Foodservice represents the loss of a major restaurant customer and higher levels of promotional spending at both the distributor and operator levels in order to remain competitive.

U.S. Beverage sales decreased 3% in the quarter, reflecting declines in V8 Vegetable Juice and V8 V-Fusion beverages, while V8 Splash sales increased slightly. The decrease in V8 V-Fusion was primarily due to declines in the existing business, partly offset by the growth in new products, including energy drinks and juice boxes.

Operating earnings for U.S. Simple Meals increased significantly, up 10% to $191 million this quarter as we continue to improve the profitability of the business. The increase reflects strong earnings gains in U.S. Soup, partially offset by a decline in U.S. Sauce. Within this segment, the benefit of higher selling prices, productivity improvements, and lower marketing expense were partly offset by volume declines and cost inflation.

The earnings of Global Baking and Snacking increased by 4%, reflecting growth at Pepperidge Farm, partly offset by lower earnings at Arnott's. For the segment, volume gains and productivity improvements were offset by increased promotional spend and cost inflation.

Within International Simple Meals & Beverages, earnings decreased by 7%, primarily due to lower earnings in Canada, where cost inflation has outpaced higher selling price, net of increased promotional spending.

Operating earnings for U.S. Beverages increased by 9% for the half. Lower advertising expenses, which were largely timing related, and productivity improvements were partially offset by volume declines and cost inflation.

And finally, operating earnings within the Bolthouse and Foodservice segment increased by 7%, or $2 million. The increase included $15 million from the addition of Bolthouse Farms and a significant decrease in earnings from North America Foodservice.

Consistent with the sales decline, the earnings decline in Foodservice is driven by customer loss and higher trade spending. We are pleased with the performance of Bolthouse Farms, which is delivering results consistent with our acquisition plan.

U.S. Soup sales for the second quarter increased by 1%. Our sales performance was negatively impacted by a decline in retailer inventory levels. Our end-market performance, as measured by consumer takeaway, increased about 3%, led by gains in both RTS and condensed soup.

As you can see on the chart, our reported sales of condensed soup increased by 1%, driven by gains in eating varieties, cooking varieties were comparable to the year-ago quarter. Ready-to-serve soup sales increased 8%, primarily due to volume-driven gains in Campbell's Chunky canned soups and the benefit of new items across the portfolio, slightly offset by declines in microwavable soups.

Broth sales declined by 12%, primarily due to movements in retailer inventory following increased shipments in the first quarter to support holiday promotions.

For the first half, U.S. Soup sales increased 2%, primarily driven by a 6% increase in ready-to-serve soup. Sales of condensed soups were comparable to the prior year, while sales of broth decreased 1% for the half. U.S. Soup consumer takeaway for the first six months was up about 1%.

On slide 28, we look at our market share and category performance based on the past 52 weeks for the U.S. wet soup category. The category as a whole rose 2.2% during the full year. Our sales in measured channels rose by 0.2%, with gains in condensed soup and ready-to-serve cans mostly offset by weakness in microwavable bowls.

Campbell's had a 59% market share of the wet soup category, which includes condensed, ready to serve, and broth. All other branded players collectively held a share of 28%, leaving 13% for private label. These figures represent dollar share and are sourced from SymphonyIRI multi-outlet data.

For the first half, we reported net sales of $4.7 billion, a 9% increase from the prior year, primarily driven by the acquisition of Bolthouse Farms. Excluding the impact of the acquisition, organic net sales increased by 1%. The organic sales gains were primarily driven by growth in Baking and Snacking and U.S. Simple Meals, partly offset by declines in North America Foodservice and U.S. Beverages.

Excluding restructuring and acquisition transaction cost, adjusted EBIT increased by 5% to $787 million. Four points, or $29 million of the increase, was attributable to Bolthouse Farms' operating earnings, while one point of growth came from the base business, primarily driven by earnings gains in U.S. Simple Meals.

Adjusted earnings per share were $1.58 in the first half, an 8% increase from the first half of 2012. The increase reflected EBIT growth, the benefit of lower tax rates, and fewer shares outstanding, partly offset by higher interest expense.

In the first half, our reported net sales increased by 9%, with the Bolthouse Farms acquisition contributing nine points. Organic sales, excluding the acquisition, increased 1%, reflecting an increase in pricing of two points, partly offset by the negative impact of increased promotional spending of one point. You'll note that the detail doesn't add, due to rounding.

On a segment basis, organic sales growth in Global Baking and Snacking, U.S. Simple Meals, and International Simple Meals was partly offset by declines in North America Foodservice and U.S. Beverages.

Our adjusted gross margin percentage declined 160 basis points to 37.4% for the half. The decline was primarily attributable, again, to the impact of Bolthouse. The inflation rate and cost of goods was approximately 4% for the half, in line with our expectation for the full year.

Marketing and selling expenses decreased by 1% to $551 million. The decline was primarily due to our planned reduction in marketing spend, principally a 14% reduction in advertising and consumer promotion expense, partly offset by the impact of Bolthouse Farm expenses and higher selling expenses.

Administrative expense for the quarter increased $37 million, due to adding Bolthouse Farms and incurring higher compensation and benefit costs, including increases in pension expense.

Below the operating earnings line, net interest expense increased $10 million due to the higher level of debt to fund the acquisition. The adjusted tax rate declined 120 basis points to 31.7%, primarily due to tax planning initiatives which lowered our taxes on foreign earnings. Consistent with EBIT growth, adjusted net earnings for the first half also increased 5%. Adjusted EPS, benefiting from fewer shares outstanding, increased 8%.

Cash flow from operations was $499 million, compared with $478 million in the prior-year period. Higher cash earnings, including the addition of Bolthouse Farms, were partly offset by increased working capital requirements and higher pension contribution.

Capital expenditures of $110 million were up from $97 million a year ago. For the year, we continue to forecast capital spending of approximately $330 million, including capital spending at Bolthouse.

As we previously announced, we have suspended the strategic share repurchase program at the end of fiscal 2012 in order to reduce the debt incurred to finance the Bolthouse acquisition. However, we continue to repurchase sufficient shares to offset dilution from equity compensation programs.

Net debt rose to $4 billion, an increase of $1.5 billion due to the acquisition, partly offset by cash generation from the base business.

For the first six months, the Company paid dividends of $366 million, including accelerated payments of the January and April dividends. This total compares with $188 million paid a year ago.

This morning, we confirmed our fiscal 2013 guidance. For the year, we continue to expect to grow sales between 10% and 12%, with adjusted EBIT growth of 4% to 6% and adjusted EPS growth of 3% to 5%. Within these ranges, currency is expected to be neutral. We now expect interest expense to increase approximately $20 million, primarily due to the acquisition financing. The tax rate will still be between 31% and 32%.

Our guidance includes the estimated impact of the Bolthouse business and excludes the impact of one-time acquisition transaction costs and those costs related to our restructuring programs. The Bolthouse Farms acquisition is expected to contribute approximately $750 million to sales and to add between $0.05 and $0.07 to our adjusted EPS, including the impact of suspending our strategic share repurchase program.

Looking at the second half, the acquisition will have a more significant impact on our sales growth rate, given our ownership for the full period and given the seasonality of our base business. While we expect EBIT growth to continue in the second half, our EPS growth will be negatively impacted by an unusually low tax rate in the back half of last year, 26% in the third quarter, 30% in the fourth quarter of fiscal 2012.

Thank you. With that, I'll now turn it back to Jennifer.

Jennifer Driscoll - *Campbell Soup Company - VP IR*

Thanks, Craig. At this time, we'll conduct a Q&A session. We'd like to request that callers limit themselves to one question, and stay on the line in case we need clarification. This way, we hope to respond to more callers.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Jason English, Goldman Sachs.

Jason English - *Goldman Sachs - Analyst*

I'd like to get a little better understanding of this Mexican transition, and specifically have a few questions. So apologize in advance. I'm just going to rattle off a few.

First, can you give us a rough sense of how big your soup and beverage business is in Mexico right now, where the current distribution level stands, where you think distribution could go to over time? And then, give us a sense of the timeline for this transition and rollout.

Craig Owens - *Campbell Soup Company - SVP, CFO, Chief Administrative Officer*

Jason, we don't disclose the size of the business, but it is relatively small, right, in Mexico. While we've been there for quite some time and have developed a reasonable soup business, given that the soup business there is not primarily wet soup, and lately we've had a lot of success with our beverage business there.

Our distribution model currently is primarily in the developed trade, and really I think the primary impact of this change is that it's going to take us in a much better way down market and into the smaller mom-and-pops and the smaller outlets that are so important, particularly to our beverage business, in that country.

The timeline is that we will phase out of production really across the next several quarters, but fairly quickly we will move into distribution through the third parties. And so, we'll start to see some of that impact as early as the latter part of this quarter.

Jason English - *Goldman Sachs - Analyst*

Are you expecting any material impact on the overall margin profile of this business?

Craig Owens - *Campbell Soup Company - SVP, CFO, Chief Administrative Officer*

Well, I don't want to get all deeply at this point into the accounting for this, but the margin will improve. We'll probably see a decline in our reported sales because of the structure of the agreement, but I think it'd be best for us to tackle that when we report the quarter where that impact begins.

Jason English - *Goldman Sachs - Analyst*

Okay, thanks a lot. I'll pass it on.

Craig Owens - *Campbell Soup Company - SVP, CFO, Chief Administrative Officer*

Sure.

Jennifer Driscoll - *Campbell Soup Company - VP IR*

Thanks, Jason. Next question.

Operator

Thilo Wrede, Jefferies.

Thilo Wrede - *Jefferies & Company - Analyst*

I just want to clarify something. So if I understand you right, you're planning to increase advertising on V8 because you're not happy with the performance of the brand. You increased advertising on Chunky and apparently the brand is reacting there, yet you're still planning to decrease advertising overall. Doesn't the success of your advertising show you that more advertising would be helpful?

Denise Morrison - *Campbell Soup Company - President, CEO*

Let me take that question. There is a number of different dynamics going on in different brands. And what we've been talking about is for each brand optimizing all of the drivers of demand.

In the V8 situation, we believe that as we introduce our new V8 with improved taste and the Hints of Lime and the new energy drinks and the juice boxes on kids, increasing our advertising in the second half is a good way as one of the drivers for that business, in addition to merchandising and the innovation and product improvement that I just talked to you about.

In terms of Chunky, the biggest change on Chunky was going back to the NFL and having advertising that was a lot more productive than when Chunky got lost in the Amazing campaign last year. We think that has been huge.

Across the soup business in general, our advertising investment is still indexing significantly higher than peers, but we've used media vehicles -- for example, we shifted to higher-quality GRPs and doubled our network prime GRPs, which were much more effective for us. So we've made some changes in not only the advertising campaign in Chunky, but also in the media as well.

So I think that, suffice it to say that we are looking at all those drivers by brand, and we're making the decisions based on the situation the brand finds itself in.

Jennifer Driscoll - *Campbell Soup Company - VP IR*

And just a fact check, advertising was down in soup, not up, as you said, Thilo.

Denise Morrison - *Campbell Soup Company - President, CEO*

Right.

Thilo Wrede - *Jefferies & Company - Analyst*

But it was up on Chunky?

Craig Owens - *Campbell Soup Company - SVP, CFO, Chief Administrative Officer*

No, it was down on Chunky. I mean, it's one of the things that makes it a good example of what we're talking about. We had great response to more effective advertising on Chunky and to some of the other things that we did in the marketing mix. But advertise spend on Chunky was down.

Thilo Wrede - *Jefferies & Company - Analyst*

Okay. Thank you.

Jennifer Driscoll - *Campbell Soup Company - VP IR*

Next question, please.

Operator

Eric Katzman, Deutsche Bank.

Eric Katzman - *Deutsche Bank - Analyst*

I guess we heard from Kraft this morning of inventory de-loading in some of their markets. Smucker's seemed to have skated through without that. But you mentioned broth as a challenge. Denise, perhaps you can go into what's happening with that. I think you broadly mentioned that you undershipped consumption, but in broth it sounds like it was a pretty tough quarter.

Denise Morrison - *Campbell Soup Company - President, CEO*

The broth business was affected by the fact that we shipped our holiday broth program at the end of October. So it actually hit in the first quarter, which raised our inventory levels, and we actually guided for that as we entered into the second quarter.

Overall for the half, broth was down 1%. So I think overall what we found in the second quarter as our consumption -- our dollar consumption on soup picked up, we actually were seeing dollar consumption, this is [MULO] of plus 3.2%, with our shipments only being up 1%. So we've been outpacing our shipments with consumption.

But our inventory is only up slightly at the end of the quarter, and that's in anticipation of the programming that went against the Super Bowl.

Craig Owens - *Campbell Soup Company - SVP, CFO, Chief Administrative Officer*

So broth was the most extreme piece of that area.

Denise Morrison - *Campbell Soup Company - President, CEO*

Yes.

Craig Owens - *Campbell Soup Company - SVP, CFO, Chief Administrative Officer*

But for the half, it's all pretty well squared up, even within broth.

Eric Katzman - *Deutsche Bank - Analyst*

Okay. And then, the challenges in beverages, that's been going on for a while. But foodservice, that's not a business that we really have talked about much at all, basically, I guess, because it's been relatively small and not all that impactful one way or the other. But it sounds like that's going the wrong way in a very rapid rate.

Is there anything really that you can do, other than try to gain some accounts back sooner versus later to offset that? And how much of a drag to earnings do you expect that to be in the second half?

Denise Morrison - *Campbell Soup Company - President, CEO*

A large portion of our sales decline, as we said, was due to the loss of a key restaurant customer. But we've also had an impact in the bottom line due to increased promotional spending. The cost of doing business in these channels have increased for us.

So we're working through programs with retailers -- sorry, with restaurants and with operators. We have a campaign for customer acquisition. But this is going to take time. And that's why we've basically said that we do anticipate that over the next few quarters, this business will continue to face challenges. The one part of the foodservice business that actually remains a bright spot is our retail fresh soup.

And the other thing that's in our profit in this business is we're investing in new capabilities that will support our ability for new customer acquisition.

Eric Katzman - *Deutsche Bank - Analyst*

And so, to the question about the earnings hit, can you give us some sense as to how much of a drag that is going to be?

Craig Owens - *Campbell Soup Company - SVP, CFO, Chief Administrative Officer*

You know, Eric, I don't actually see the trends getting a lot better in that business. As you pointed out, there are some step-change things that happen as you acquire or as you lose customers. We're on the negative side of that this year with a pretty significant restaurant loss.

And we'll keep working on expenses and customer acquisition, but I think, realistically, we're going to see that business be a negative drag through the balance of this year, and then we will have cycled that customer loss.

Eric Katzman - *Deutsche Bank - Analyst*

Okay. All right. I'll see you down in Florida.

Craig Owens - *Campbell Soup Company - SVP, CFO, Chief Administrative Officer*

Thanks.

Jennifer Driscoll - *Campbell Soup Company - VP IR*

Next question, please.

Operator

Andrew Lazar, Barclays Capital.

Andrew Lazar - *Barclays Capital - Analyst*

Just looking at your full-year EPS guidance, which hasn't changed, but given the overdelivery in the fiscal second quarter, I guess at the midpoint of your full-year range it implies essentially no EPS growth in the second half of the year.

I'm trying to get a sense of why that would be. Is it -- we already have the higher year-over-year tax rate in our model. Is it just the foodservice issue you just talked about and some higher spending planned in beverages? Or is there something else there that would lead the earnings growth to slow that much sequentially?

Craig Owens - *Campbell Soup Company - SVP, CFO, Chief Administrative Officer*

If you look at it half to half, Andrew, the delivery on -- the implied delivery on EBIT is not very much different.

So it's all about what's going on below the line. And it's the combination of cycling the very low tax rate from last year in the second half -- so in the first half of this year, tax was a small favorable as we went from EBIT to earnings per share in the first half. And it's going to be a big negative as we go from EBIT to EPS in the second half.

And then, you've also got the fading positive impact of the share repurchase program. We suspended share repurchase at the beginning of this year, so in the first half the positive impact from that was something like three points and it will be more like one point or so in the balance of the year.

So those two things are really what's going on between EBIT and EPS differently between the two halves.

Andrew Lazar - *Barclays Capital - Analyst*

Great. Thanks for that. And you'd mentioned that condensed --- I think condensed sales were essentially flat for the half. And I know there were some concerns coming into the year that you were taking some pricing on condensed and what would the elasticity be. But it seems like, at least thus far, that's been manageable.

So I'm trying to get a sense, is that level of elasticity essentially in line with what you had planned coming in? Or better? And what does it tell you about the resiliency of that piece of the business and the role it can play in your broader portfolio?

Denise Morrison - *Campbell Soup Company - President, CEO*

Yes, Andrew, on the condensed soup, the performance has been better than what we expected in terms of the list price increase. And we're seeing that not only across the base, but also the incremental.

Craig Owens - *Campbell Soup Company - SVP, CFO, Chief Administrative Officer*

If you look at consumption data for the quarter, condensed was actually up about three points, so we're pretty happy with that.

Andrew Lazar - *Barclays Capital - Analyst*

Thank you very much. See you next week.

Operator

Ed Aaron, RBC Capital Markets.

Ed Aaron - *RBC Capital Markets - Analyst*

You mentioned in your prepared remarks that consumption in soup came in a little bit better than you expected. As you look at the underlying data there, does it look to you like that's a function of what you've been doing to improve that business? Or was there perhaps just more of a benefit from easy comps and some better weather year over year?

Denise Morrison - *Campbell Soup Company - President, CEO*

We have -- our conclusion on the performance this quarter really has been that our growth is driven by improved execution across the drivers of demand.

We talked earlier on the call about the Chunky example, but if you think just in that one line, we've made taste improvements. We have had new innovation. In fact, three of the new varieties are performing in the top five of all RTS. We have had better positioning with the NFL. We are now being much more true to the brand target, dealing with satisfying the core male demographic. We've optimized pricing. We've had better distribution and more impactful merchandising.

So it's not a silver bullet. It's just been working with the brand and what it stands for in a much better way.

In the advertising, we've cut the competitive levels, but we actually have more impactful advertising with the NFL. And quite frankly, you could say, yes, the weather had an impact, but it's really hard to predict or measure weather. So basically, we think it's that, plus all of the other things we're doing on the business.

Operator

Alexia Howard, Sanford Bernstein.

Alexia Howard - *Sanford C. Bernstein & Company, Inc. - Analyst*

Actually maybe just continuing on the question of Chunky execution, it must be quite unusual to have some of those brand new SKUs be in the top of the SKUs for that entire brand. Is that because they are getting an awful lot of new promotion and merchandising support? And if so, how long is that launch merchandising support likely to last?

Denise Morrison - *Campbell Soup Company - President, CEO*

I think it's a combination of the fact that we've had better quality merchandising and more frequency of promotion, not necessarily in the depth of that promotion, that has really worked for the brand this year. And the new SKUs would be promoted, at least the new base SKUs, would be promoted with the rest of the line.

Alexia Howard - *Sanford C. Bernstein & Company, Inc. - Analyst*

And the promotion for the new SKUs, that will continue -- is there unusual promotion on those new products and how long does that typically continue?

Craig Owens - *Campbell Soup Company - SVP, CFO, Chief Administrative Officer*

There's not a lot of differentiated activity on the new SKUs within the Chunky line, Alexia. They have done very well and we're really happy about that, but the Chunky line tends to get promoted both base and incremental SKUs together. And we've just seen really good response to some of the new flavor adventure that we've got in the new SKUs. So it's pretty good news for us.

Alexia Howard - *Sanford C. Bernstein & Company, Inc. - Analyst*

Great. Thank you very much. I'll pass it on.

Operator

John Baumgartner, Wells Fargo.

John Baumgartner - *Wells Fargo Securities, LLC - Analyst*

Denise or Craig, just thinking about the industry and the environment here, it seems to be picking up a little bit. And in light of that, just wondering if you can maybe share your vision in terms of Global Baking and Snacking to the extent that maybe there's some white spaces in your portfolio that you'd like to fill or maybe certain geographies where a deal could enhance your leverage or enhance your growth. Just wondering if you have any thoughts there?

Denise Morrison - *Campbell Soup Company - President, CEO*

The Global Baking and Snacking business for us has been pretty robust. And we're seeing increases in sales in both the United States and in Asia-Pacific across the savory and the sweet, and then in the United States, we did have a windfall in our bakery business due to the Hostess bankruptcy. We were able to get extra shelf space and extra merchandising.

I think that we're encouraged by those results. I don't know, Craig, if you have anything more to add there.

Craig Owens - *Campbell Soup Company - SVP, CFO, Chief Administrative Officer*

Well, we have said a number of times that part of our strategy is to be a little bit more active in M&A. One of the -- certainly in terms of category, Baking and Snacking is interesting to us. So if we saw an opportunity to fill portfolio white space, as you put it, in some of our target markets with baking or snacking assets, that would be interesting to us.

John Baumgartner - *Wells Fargo Securities, LLC - Analyst*

Great. Thank you.

Operator

David Driscoll, Citi.

David Driscoll - *Citigroup - Analyst*

I wanted to ask a bit more of a big-picture strategic question. Incredible news yesterday with Heinz going off the board here with a non-strategic buyer, a financial buyer.

Denise, I'd really like to hear your thoughts on -- it's always been one of my beliefs and I think a fairly widely-held belief that the combination of Campbell's and Heinz would produce just tremendously powerful cost synergies on bringing those two companies together. You don't need to comment -- you're probably not going to comment on Heinz, but I'd like to hear your thoughts on this idea of extracting cost synergies in a really big-picture strategic sense as to what you can do with Campbell's. I mean, it does seem like there's some amazing opportunities.

And to see a company like Heinz go off the board from a financial buyer who should have nowhere near the capabilities of bringing cost synergies like a Campbell's would, I'm just surprised that that type of transaction has happened and we haven't seen a Campbell's get involved with something like this.

Denise Morrison - *Campbell Soup Company - President, CEO*

Well, we found the news surprising yesterday, as well. And we wish Heinz and all the investors well with their plans.

I'm not really going to comment on that transaction. What I can comment on, though, is the fact that at Campbell's we are constantly looking at ways that we can reduce costs and manage our margins in these businesses. And we'll continue to do so.

David Driscoll - *Citigroup - Analyst*

Thank you.

Operator

David Palmer, UBS.

David Palmer - *UBS - Analyst*

I have a question on innovation. It sounds like some of the new flavors at Chunky have worked well. You also had Go! Soup and some other platforms with the idea that you wanted to broaden the shoulders of the brand, reach down into younger demographics. Could you speak to those new platforms, whether there's a prospect of those being in-sourced because they're that successful from co-packing, which is my understanding that those are being co-packed, and any insights there? That would be great. Thanks.

Denise Morrison - *Campbell Soup Company - President, CEO*

Yes. I think the easiest way to deal with this is the fact that we've had two types of innovation. We've had sustaining innovation, which we've just talked about in terms of the line extensions to our base business, and then also the breakthrough innovation.

The major breakthrough innovation that we've had in soup and simple meals, as you have pointed out, is the Go! Soup and the Skillet Sauces. And to date, they've added about a half a point to our sales growth in Quarter 2.

Let me give you a little color on this. We reached our distribution targets for ACV, although it was a slower build. But we completed that at the end of Quarter 1, and just to give you an idea, that's about 70% in the MULO, and in grocery, it's about the mid-80s.

Therefore once we achieve that, we turned on the marketing mid-quarter, particularly in digital and social media, and then in store with shopper marketing and consumer promotions because right now we're in the stage where we want to drive more trial with this new demographic of millennials.

The trial is building. And where we have trial, repeat is encouraging. And so, we believe that this is going to take longer to create a franchise with this new demographic, but we're very committed to it. And this is the beginning of a platform to do so.

In the case of Skillet Sauces, we're really making a market here because this dinner sauce segment does not exist. And so, what we found was customers place the Skillet Sauces in some different locations in the stores. We're learning where they should be situated. We're reading the data on that throughout this introduction.

But what we've come up with and we're talking to retailers about is we envision a new dinner sauce section in the store. And we recognize that it's going to take longer to create a new category than building on line extensions. But so far, the retailer receptivity to this idea is very good.

So we're pretty encouraged by these platforms, and we're going to continue to work them and build on them. And you'll hear more about that at CAGNY.

David Palmer - *UBS - Analyst*

Thank you very much.

Operator

Chris Growe, Stifel Nicolaus.

Chris Growe - *Stifel Nicolaus - Analyst*

I just had a question for you on the foodservice business and just a follow-up. A lot of my other questions have been answered.

So on the foodservice side, and obviously the loss of a customer can hurt the business in the short run, but is there anything you need to do to that business to get it -- whether it's from an investment standpoint or even a restructuring standpoint? I know you've got a pretty good plant there, but is there anything you can do from either of those sides to help improve the performance for the new, if you will, foodservice business?

Craig Owens - *Campbell Soup Company - SVP, CFO, Chief Administrative Officer*

Well, so we're working actually in both of those areas. We are putting in some new capability. There's been -- particularly around soup, we think that the market growth is more about ready-to-eat soup rather than our frozen soups. And so, we're making some capital investment in one of our plants there and extending not only our capacity, but also our packaging capabilities.

With respect to restructuring, we've been through actually some restructuring of that organization. It improved our profitability last year and the year before. I think we will re-take a look at that, but the reality is that some of the pressure, in addition to the lost customer, is coming from the -- just pressure within the industry at both a distributor level and the wholesaler level as we see pressure on prices.

So we're having to respond to that. We're being competitive. It is creating a difficult business environment for us that we think we will work our way through it. But that's the reality right now in the marketplace.

Chris Growe - *Stifel Nicolaus - Analyst*

Okay, thank you for that color. I will see you in Florida.

Operator

Jonathan Feeney, Janney Montgomery Scott.

Jonathan Feeney - *Janney Montgomery Scott - Analyst*

A bonus question, Jennifer. Thank you.

Jennifer Driscoll - *Campbell Soup Company - VP IR*

You're welcome.

Jonathan Feeney - *Janney Montgomery Scott - Analyst*

Extended replay mix. Just one quick one, the $297 million in marketing and selling expenses in the quarter you disclosed, what would that have been, roughly, without -- I assume Bolthouse had some marketing and selling associated with it, but how much would that have been done on an organic basis?

And I guess related to that, clearly you did have some success with Chunky, and in an environment of falling advertising expenses, so what is it that's special, do you think, about soup and maybe your ready-to-serve franchise that's allowing you to get growth where -- sort of industry dogma that you need to advertise to sell product, or you'll still accelerate volumes incrementally? Thank you.

Craig Owens - *Campbell Soup Company - SVP, CFO, Chief Administrative Officer*

So we would have been down 2% marketing and selling expense, Jonathan, excluding the impact of Bolthouse.

I think, as we've said several times, I don't want to be repetitive, but the reality is Chunky is responding very well to a lot of activity that we have going on across the different drivers of demand as we talk about it. Advertising is a piece of that. It's an important piece of that. We think our advertising is more effective. We think the positioning, the more unique positioning on Chunky going back to its roots and getting it out from under the umbrella advertising, has made every dollar that we've spent on air more effective than it was last year.

And as we've also shown, and we'll talk a little bit more about this at CAGNY, although we are down, and it's appropriate for us to talk about that because it's a driver from year to year, although we are down on our advertising spend, we are still very fully [spent] if you compare us to industry averages against our soup business.

Denise Morrison - *Campbell Soup Company - President, CEO*

Yes.

Jonathan Feeney - *Janney Montgomery Scott - Analyst*

Thank you.

Craig Owens - *Campbell Soup Company - SVP, CFO, Chief Administrative Officer*

Sure.

Jennifer Driscoll - *Campbell Soup Company - VP IR*

Okay, we're going to let one more sneak by. But it can't be a three-part question, okay? Who have we got?

Operator

Rob Moskow, Credit Suisse.

Rob Moskow - *Credit Suisse - Analyst*

My lucky day. Okay. So it's a one-part question. I think this year, you, management, has demonstrated that they can stabilize the Simple Meals business. And operating margins, by my forecast, anyway, look like they're going to come in around 25%. They've come in 25% almost every year for the last four or five years.

And my question is, is stabilization good enough right now for that business segment? Would you be happy with a slow zero to 1% pace of growth and 25% margins? And if so, are you concerned that there might be dilution to the margin for the portfolio overall as you concentrate your resources on growing the lower-margin parts of the businesses, like beverages and Bolthouse? Thanks.

Denise Morrison - *Campbell Soup Company - President, CEO*

I'm going to try and really answer this question. First of all, stabilization of this business is not good enough. And we've always said that we want to stabilize and profitably grow the business.

We recognize that the business as is is capable of a few points of growth. And it will be the innovation that we bring to the business on top of what we have today that could take that growth higher.

Some of those executions will be at a lower margin, but they will be important because they will be reaching different consumers than what we've been able to do to date, and bringing them into the franchise. But overall, Soup and Simple Meals will be a very profitable business for Campbell's. I don't know if you have anything else to add.

Craig Owens - *Campbell Soup Company - SVP, CFO, Chief Administrative Officer*

And Rob, you're right. If you focus on margin dilution, there probably will be some, right?

We talk about entering faster-growing segments, faster-growing geographies. It's very unlikely that those new spaces will have the same kind of operating margin that soup does. But to the extent that we expect those to be incremental growth, it adds to our total growth portfolio. I'm not so concerned about margin dilution, per se, and particularly when you put it on top of not only stabilized soup business, but one that has some growth to it and one that is benefiting from increased innovation.

I think the formula starts to work pretty well for us if we get all those things going at one time.

Rob Moskow - *Credit Suisse - Analyst*

A few points of growth, was that a two or a three behind it for Simple Meals, or is that how I should interpret that?

Craig Owens - *Campbell Soup Company - SVP, CFO, Chief Administrative Officer*

Don't have a specific forecast on Simple Meal growth going forward.

Rob Moskow - *Credit Suisse - Analyst*

Got it. Okay, thank you very much.

Jennifer Driscoll - *Campbell Soup Company - VP IR*

Okay. Thank you for your very active Q&A session. We will switch to Denise for her wrap-up.

Denise Morrison - *Campbell Soup Company - President, CEO*

So in conclusion, I'd like to leave you with some key points. We're encouraged with our overall performance this quarter as we continue to make progress on advancing our three growth strategies.

Our U.S. Simple Meals business is clearly picking up steam with positive sales and profit growth in both the quarter and the half. It's still too soon to judge the long-term success of our breakthrough innovations in U.S. Simple Meals, but early results are as we expected, and over time we believe these products can contribute meaningfully to our growth.

In Global Baking and Snacking, we posted solid results. Our Goldfish brand continued its positive momentum, and we drove increased consumption in our Sweet Snacking business. We also gained shelf space in fresh bakery, and in Asia-Pacific, we grew biscuit sales for both the quarter and the half.

We have more work to do to improve the performance of U.S. Beverages and our North America Foodservice business, where we lost a significant customer.

Bolthouse Farms had another good quarter, driven by innovation and increased distribution across its three categories. And we advanced our efforts to expand our international presence through agreements with Grupo Jumex and Conservas La Costena that will give Campbell expanded access to manufacturing and distribution capabilities in Mexico to grow our business.

We're looking forward to a second half of continued investment and profitable sales growth. Thank you very much for joining us today and I look forward to seeing many of you at CAGNY next week.

Jennifer, can you please provide the closing comments?

Jennifer Driscoll - *Campbell Soup Company - VP IR*

Thank you, everybody. We appreciate you joining us for our second-quarter earnings call. The replay will be available in a couple of hours. The phone number for that, if you missed any of our call, is 703-925-2533.

If you are a reporter and have questions, please call Carla Burigatto, Director of External Communications, at 856-342-3737. If you're an analyst or investor, call me, Jennifer Driscoll, at 856-342-6081.

That does conclude our conference and you may now disconnect. Have a great weekend and we'll see many of you in Florida.

Operator

Thank you. Ladies and gentlemen, thank you for your participation in today's conference. This does conclude the conference. You may now disconnect. Good day.

DISCLAIMER