

Campbell Soup Company (CPB)

\$52.72 (As of 03/04/20)

Price Target (6-12 Months): **\$56.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/11/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

Growth: D

Momentum: A

Summary

Shares of Campbell Soup have outpaced the industry in the past three months. The stock gained following the company's robust second-quarter fiscal 2020 results, wherein both earnings and revenues came ahead of the Zacks Consensus Estimate and the former grew year over year. Results were backed by reduced interest expenses, benefits from cost savings, productivity enhancements and improved mix. The company highlighted that proceeds from divestitures have helped it curtail debt load. Notably, lower interest costs and solid EBIT in the first half led to a raised earnings guidance for fiscal 2020. However, softness in the ready-to-serve soup and V8 shelf stable juice categories weighed on the Meals & Beverages unit. Also, the company's profits continue to be affected by input cost inflation and elevated marketing costs.

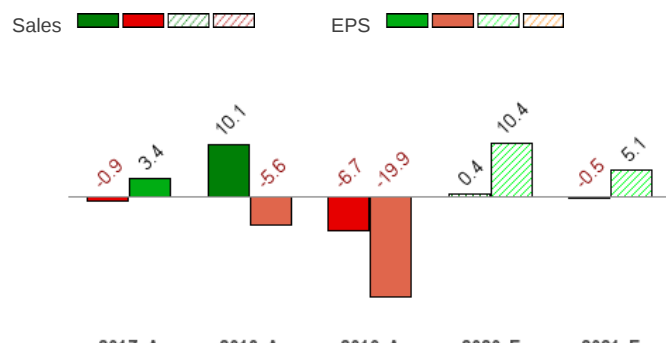
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$53.83 - \$35.03
20 Day Average Volume (sh)	2,321,689
Market Cap	\$15.9 B
YTD Price Change	6.7%
Beta	0.51
Dividend / Div Yld	\$1.40 / 2.7%
Industry	Food - Miscellaneous
Zacks Industry Rank	Bottom 27% (185 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	10.8%
Last Sales Surprise	0.3%
EPS F1 Est- 4 week change	0.7%
Expected Report Date	06/03/2020
Earnings ESP	0.0%
P/E TTM	21.3
P/E F1	20.8
PEG F1	3.5
P/S TTM	1.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,172 E	2,181 E	1,966 E	1,824 E	8,097 E
2020	2,183 A	2,162 A	1,934 E	1,884 E	8,141 E
2019	2,694 A	2,713 A	2,178 A	1,780 A	8,107 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.80 E	\$0.74 E	\$0.62 E	\$0.53 E	\$2.67 E
2020	\$0.78 A	\$0.72 A	\$0.57 E	\$0.53 E	\$2.54 E
2019	\$0.79 A	\$0.77 A	\$0.56 A	\$0.42 A	\$2.30 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/04/2020. The reports text is as of 03/05/2020.

Overview

Based in Camden, NJ, Campbell Soup Company, together with its subsidiaries, is a worldwide manufacturer and marketer of high-quality, branded convenience food products. The company was instituted as a business corporation on Nov 23, 1922 under the laws of New Jersey. The company's brands are sold in approximately 120 countries, and its principal geographies include North America, France, Germany, Belgium, and Australia. The widely-recognized brands of the company include Campbell's, Pepperidge Farm, Bolthouse Farms, Arnett's, V8, Swanson, Pace, Prego, Plum, Royal Dansk, and Garden of Eatin' Gourmet.

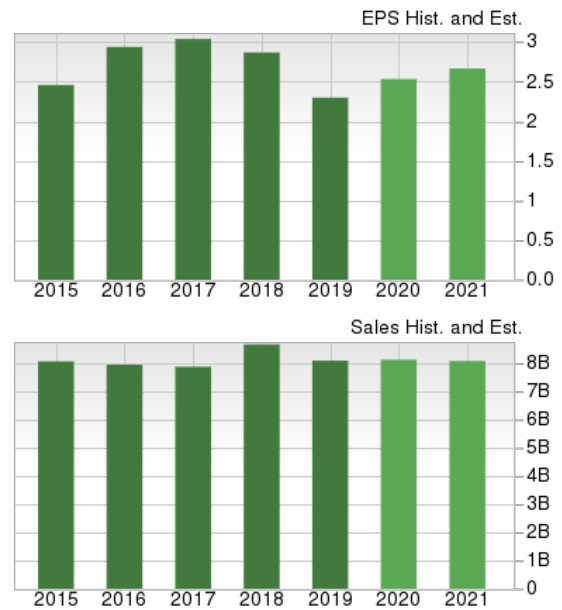
The company concluded the sale of Arnett's and certain International operations to KKR in December 2019. Further, Campbell divested its European chips business in October. Additionally, it divested Campbell Fresh in fiscal 2019 and Kelsen Group on Sep 23. The Campbell Fresh and Campbell International segments are now part of discontinued operations.

The company now reports under the following segments:

- **Meals and Beverages** (57% of Q2 Sales) segment includes the retail and food service businesses in the United States and Canada. The segment includes Campbell's condensed and ready-to-serve soups; Pacific broth, soups, non-dairy beverages and other simple meals; Prego pasta sauces; pasta, beans and dinner sauces; Swanson canned poultry; Plum food and snacks; and V8 juices and beverages among others.

Starting fiscal 2019, the segment incorporated the simple meals and shelf-stable beverages business in Latin America. Earlier, the business in Latin America was managed as part of the Global Biscuits and Snacks segment. From the third quarter of fiscal 2019, the Meals and Beverages segment also included a portion of the U.S. refrigerated soup business that earlier formed part of the Campbell Fresh segment.

- **Snacks** (43%) segment includes the U.S. snacks portfolio, consisting of Pepperidge Farm cookies, crackers, bakery and frozen products in U.S. retail, and Snyder's-Lance pretzels, sandwich crackers, potato chips, tortilla chips and other snacking products.



Reasons To Buy:

▲ **Solid Q2 Earnings & Raised Guidance Boost Stock:** Shares of Campbell Soup have gained 10.4% in the past three months against the industry's decline of 7.3%. The stock got a boost following the company's robust second-quarter fiscal 2020 results, wherein both earnings and revenues came ahead of the Zacks Consensus Estimate and the former increased year over year. Results were backed by reduced interest expenses, benefits from cost savings, productivity enhancements and improved mix. These factors also aided adjusted EBIT and gross margin growth. Moreover, the company highlighted that proceeds from divestitures has helped it curtail debt load, which in turn will lower the company's interest burden.

Campbell Soup is on track with stabilization of its in-market performance, efficient integration of Snyder's Lance business, strengthening the Snacks category and cost savings generation.

Notably, Campbell revised its adjusted earnings per share (EPS) guidance for fiscal 2020 on the back of lower adjusted net interest expenses stemming from reduced debt along with an impressive EBIT momentum through the first half of the fiscal. Campbell now expects adjusted EPS in the range of \$2.55-\$2.60, which indicates growth of 11-13%. Earlier, management envisioned EPS to grow 9-11% to \$2.50-\$2.55.

▲ **Actions Post Board-Led Strategy & Portfolio Review:** Campbell is taking various important actions to enhance the company's performance and boost shareholders' value. These actions form part of the company's portfolio review and Board-led strategy. Markedly, Campbell plans to bring focus on two separate businesses in its key North American market — Campbell Snacks, and Campbell Meals and Beverages. Keeping in these lines, the company concluded the sale of Arnott's and certain International operations to KKR in December 2019. Further, Campbell divested its European chips business in October. Additionally, the company divested Campbell Fresh in fiscal 2019 and Kelsen Group on Sep 23.

The Campbell Fresh and Campbell International segments are now part of discontinued operations. These actions will help the company increase focus on the core North American market.

▲ **Focus on Snacks Business:** Focusing on strengthening the presence of its growing snacks brands is part of Campbell's core strategies. This becomes more evident from the company's recent portfolio review, after which management stated that it aims to make Campbell a leading snacks and simple meals firm. Campbell remains committed to shifting its overall portfolio toward the fast-growing snacking category, which is expected to form about half of Campbell's proforma sales in future. Markedly, Campbell acquired Snyder's-Lance in the third quarter of fiscal 2018, which is enhancing the performance of the global biscuits and snacks portfolio.

Evidently, organic sales in this division improved 2% in the quarter under review. The segment gained from advancements in Pepperidge Farm cookies, Kettle Brand, Goldfish crackers and Cape Cod. Brands under the snacking category will continue boosting performance, backed by enhanced marketing and innovation.

▲ **Robust Saving Efforts:** Campbell is progressing well with its cost savings plan, which was announced in fiscal 2015. The company's strategy of concentrating on supply-chain efficiencies, along with curtailing costs and reinvesting part of these savings in areas with high growth potential is likely to drive growth. During the quarter under review, Campbell generated savings worth \$45 million as part of its multi-year, cost-saving program, which included synergies associated with the Snyder's-Lance buyout. With this, the company has generated total program-to-date savings of \$650 million.

Management anticipates generating cumulative annualized savings from continuing operations of \$850 million by fiscal 2022 end. These factors along with Campbell's prudent investment and strategic efforts toward product innovation and brand building are likely to continue fueling profitability.

▲ **Shareholder-friendly Moves:** Campbell generated \$663 million as net cash from operating activities in the first half of fiscal 2020. The robust operating cash flow provides the company with the financial flexibility to drive future growth, enabling it to sponsor the development of fast-growing businesses, incur capital expenditures and return excess cash to shareholders. Campbell paid out dividends worth \$213 million during the first half of fiscal 2020 at the rate of 35 cents per share.

Reasons To Sell:

- ▼ **Cost Inflation:** During the second quarter of fiscal 2020, gross margin and adjusted EBIT were partly impacted by cost inflation and some other factors to the tune of 160 basis points. Overall input prices rose roughly 2%. Notably, management earlier stated that it expects overall cost inflation of nearly 3% in 2020, which is likely to affect profits.

Further, the company undertook several marketing investments in the second quarter, with most of the spending focused on the soup portfolio. During the quarter, adjusted marketing and selling expenses escalated 7% to \$235 million, owing to planned increased investments in advertising and consumer promotion expenses, which rose 17%. Campbell plans to undertake increased business investments to drive momentum in the second half of fiscal 2020. This is likely to weigh on profits to some extent.

Campbell Soup is battling cost inflation. Also, increased business investments are likely to weigh on profits to some extent.

- ▼ **Meals & Beverages Sales Flat:** Sales in this division were flat year over year at \$1,224 million. Notably, gains from Prego pasta sauces and U.S. soup were offset by declines in beverages. Also, U.S. soup sales were somewhat hurt by declines in ready-to-serve soups. This was caused by planned trade reductions around chunky along with continued distribution losses. Also, the V8 shelf stable juice category remained challenged. Though management is undertaking efforts to reshape its portfolio around V8 Red, the V8+ product platform and single serve, it expects the process to take time.

- ▼ **Currency Headwinds Pose a Concern:** Due to its exposure to the international markets, Campbell remains vulnerable to currency fluctuations. This is because a strengthening U.S. dollar may require the company to either raise prices or contract profit margins in locations outside the U.S. Thus, adverse currency movements are a worry for the company.

- ▼ **Competitive Risk:** Since Campbell Soup operates in the food industry, it faces intense global competition for nearly all its key products. The company mainly competes on grounds of taste, brand recognition, advertising, quality, convenience, price, promotion and service. Further, some of its rivals boast solid financial and marketing resources, among others.

Consequently, excessive pressure from competitors or a shift in consumers' preferences may cause Campbell to incur greater marketing and other costs, reduce prices or lose market share, all of which are likely to hurt overall performance.

- ▼ **Volatile Macroeconomic Environment:** Campbell Soup is exposed to food industry hurdles like any adverse change in consumer preferences, alteration in consumer dynamics (such as increased need for portable and on-the-go products), demographic shifts and a spending shift toward lower-priced products. Further, the company is somewhat dependent on the consumer spending environment, which is affected by the general macroeconomic conditions, consumer confidence, employment levels and other macro factors.
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Last Earnings Report

Campbell Soup's Q2 Earnings, Revenues Top Estimates

Campbell Soup released second-quarter fiscal 2020 results. Adjusted earnings from continuing operations increased 11% year over year to 72 cents and surpassed the Zacks Consensus Estimate of 65 cents. The upside was backed by higher adjusted EBIT and reduced interest expenses.

Net sales came in \$2,162 million in the quarter. The company had reported a net sales figure of \$2,172 million in the year-ago quarter. Further, the top line surpassed the Zacks Consensus Estimate of \$2,155 million.

Moving on, adjusted gross margin improved 150 basis points to 34.4% on the back of cost-saving efforts, productivity enhancements and gains from favorable product mix. This was partly negated by cost inflation. Adjusted EBIT rose 4% to \$364 million, driven by higher gross margin.

Segment Analysis

Meals & Beverages: Sales in this division were flat year over year at \$1,224 million. Notably, Prego pasta sauces and U.S. soup performed well during the quarter that was partly offset by declines in beverages. Also, U.S. soup sales inched up 1% courtesy of gains across broth and condensed soups. This was partly offset by declines in ready-to-serve soups. The segment's organic sales were flat year over year.

Further, operating earnings in the Meals & Beverages segment declined 4% to \$242 million due to increased marketing and administrative costs.

Snacks: Sales in this division declined 1% to \$938 million. Nevertheless, organic sales improved 2%. The segment gained from advancements in Pepperidge Farm cookies, Kettle Brand, Goldfish crackers and Cape Cod. The upside was partially offset by declines in fresh bakery products as well as the partner brands in Snyder's-Lance portfolio. Operating earnings in this category increased 3% to \$136 million as improved gross margin were offset by elevated marketing expenses.

Financials

Campbell ended the quarter with long-term debt of \$4,919 million and total equity of \$2,499 million. Additionally, the company generated \$663 million as net cash from operating activities in six months ended Jan 26, 2020. Campbell paid out dividends worth \$213 million during the first half of fiscal 2020 at the rate of 35 cents per share.

Other Developments & Fiscal 2020 Outlook

During the quarter under review, Campbell generated savings worth \$45 million as part of its multi-year, cost-saving program, which included synergies associated with the Snyder's-Lance buyout. With this, the company has generated total program-to-date savings of \$650 million. Further, management continues to anticipate cumulative annualized savings from continuing operations of \$850 million by fiscal 2022-end.

Campbell revised its adjusted earnings per share (EPS) guidance for fiscal 2020 on the back of lower adjusted net interest expenses stemming from reduced debt along with an impressive EBIT momentum through the first half of the fiscal. Campbell now expects adjusted EPS in the range of \$2.55-\$2.60, which indicates growth of 11-13%. Earlier, management envisioned EPS to grow 9-11% to \$2.50-\$2.55.

Further, Campbell reaffirmed its guidance for net sales and organic net sales as well as adjusted EBIT. For fiscal 2020, net sales are projected between a decline of 1% and an increase of 1%. Organic net sales are also expected in the same range as net sales. Adjusted EBIT is still expected to rise 2-4%.

The guidance for fiscal 2020 takes into consideration gains from an additional 53rd week.

Quarter Ending 01/2020

Report Date	Mar 04, 2020
Sales Surprise	0.34%
EPS Surprise	10.77%
Quarterly EPS	0.72
Annual EPS (TTM)	2.48

Recent News

Campbell Sells Arnott's & More to KKR – Dec 24, 2019

Campbell Soup has concluded the sale of Arnott's and certain International operations to a New York-based private equity firm, KKR, for almost \$2.2 billion in cash. Management intends to utilize the net sale proceeds to lower debt. Also, the move is likely to help the company focus on prospective businesses like the North American operations. Following the transaction, Campbell has now completed the envisioned divestiture for roughly \$2.5 billion. Campbell's International operations include Campbell's simple meals businesses in Australia, Malaysia, Hong Kong and Japan, and manufacturing in Australia and Malaysia.

Per the deal, Campbell and KKR have entered into a licensing agreement for the exclusive rights to use certain Campbell brands, which includes Campbell's, Swanson, V8, Prego, Chunky and Campbell's Real Stock, in Australia, New Zealand, Malaysia and other select markets in Asia, Europe, the Middle East and Africa.

In prior developments related to portfolio restructuring, the company divested Kelsen Group, a manufacturer of baked snacks, on Sep 23. Apart from this, Campbell exited the underperforming Campbell Fresh (C-Fresh) unit in fiscal 2019.

Valuation

Campbell Soup shares are up 6.6% in the year-to-date period, and 45.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are down 5.7% and 4.1%, respectively in the year-to-date period. Over the past year, the Zacks sub-industry is up 9.9%, whereas the sector gained 6.3%.

The S&P 500 index is down 3.1% in the year-to-date period and up 11.6% in the past year.

The stock is currently trading at 20.18X forward 12-month earnings, which compares to 17.73X for the Zacks sub-industry, 19.03X for the Zacks sector and 17.89X for the S&P 500 index.

Over the past five years, the stock has traded as high as 21.58X and as low as 10.67X, with a 5-year median of 17.87X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$56 price target reflects 21.44X forward 12-month earnings.

The table below shows summary valuation data for CPB

Valuation Multiples - CPB					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	20.18	17.73	19.03	17.89
	5-Year High	21.58	22.9	22.38	19.34
	5-Year Low	10.67	14.82	16.66	15.18
	5-Year Median	17.87	19.23	19.68	17.46
P/S F12M	Current	1.96	1.65	9.56	3.3
	5-Year High	2.57	2.05	11.13	3.43
	5-Year Low	0.98	1.44	8.09	2.54
	5-Year Median	1.79	1.81	9.88	3.01
EV/EBITDA F12M	Current	12.66	13.32	34.41	12.27
	5-Year High	13.44	16.59	37.23	14.13
	5-Year Low	6.15	11.67	29.4	9.08
	5-Year Median	10.78	13.28	33.61	10.82

As of 12/16/2019

Industry Analysis Zacks Industry Rank: Bottom 27% (185 out of 255)



Top Peers

Conagra Brands Inc. (CAG)	Neutral
General Mills, Inc. (GIS)	Neutral
The J. M. Smucker Company (SJM)	Neutral
Sysco Corporation (SYN)	Neutral
Kellogg Company (K)	Underperform
The Kraft Heinz Company (KHC)	Underperform
TreeHouse Foods, Inc. (THS)	Underperform
United Natural Foods, Inc. (UNFI)	Underperform

Industry Comparison Industry: Food - Miscellaneous				Industry Peers		
	CPB Neutral	X Industry	S&P 500	CAG Neutral	GIS Neutral	K Underperform
VGM Score	C	-	-	D	B	D
Market Cap	15.90 B	4.17 B	22.29 B	14.01 B	32.76 B	22.08 B
# of Analysts	6	3	13	8	8	8
Dividend Yield	2.66%	0.13%	1.97%	2.95%	3.62%	3.53%
Value Score	C	-	-	B	B	C
Cash/Price	0.00	0.05	0.05	0.01	0.02	0.02
EV/EBITDA	14.55	12.47	13.20	14.93	13.39	14.14
PEG Ratio	3.51	2.49	1.94	2.01	2.29	3.85
Price/Book (P/B)	6.36	2.31	3.05	1.82	4.08	6.66
Price/Cash Flow (P/CF)	13.90	12.70	12.16	11.40	12.70	12.03
P/E (F1)	21.04	16.03	17.58	14.08	16.03	16.94
Price/Sales (P/S)	1.92	1.23	2.45	1.33	1.95	1.63
Earnings Yield	4.82%	5.97%	5.69%	7.12%	6.24%	5.90%
Debt/Equity	1.97	0.62	0.70	1.21	1.37	2.30
Cash Flow (\$/share)	3.79	2.75	7.01	2.52	4.26	5.36
Growth Score	D	-	-	D	C	D
Hist. EPS Growth (3-5 yrs)	-0.30%	5.54%	10.85%	-2.47%	2.82%	3.41%
Proj. EPS Growth (F1/F0)	10.22%	7.34%	6.26%	1.74%	4.97%	-3.30%
Curr. Cash Flow Growth	-12.42%	3.82%	6.03%	10.04%	5.47%	-9.43%
Hist. Cash Flow Growth (3-5 yrs)	0.50%	5.35%	8.52%	-0.87%	1.32%	-0.49%
Current Ratio	0.61	1.58	1.23	0.88	0.61	0.72
Debt/Capital	66.31%	38.43%	42.57%	54.72%	57.73%	69.71%
Net Margin	17.46%	3.90%	11.69%	7.62%	12.62%	7.07%
Return on Equity	50.69%	11.54%	16.66%	12.50%	27.33%	41.84%
Sales/Assets	0.64	1.15	0.54	0.47	0.55	0.75
Proj. Sales Growth (F1/F0)	-12.91%	1.30%	3.94%	10.37%	2.03%	-0.93%
Momentum Score	A	-	-	F	B	D
Daily Price Chg	10.11%	1.83%	3.75%	4.05%	4.88%	3.03%
1 Week Price Chg	-5.92%	-9.59%	-12.06%	-9.80%	-9.12%	-7.71%
4 Week Price Chg	7.59%	-4.85%	-7.42%	-11.88%	3.06%	-6.93%
12 Week Price Chg	9.88%	-5.79%	-4.61%	0.56%	5.02%	-2.42%
52 Week Price Chg	45.88%	4.43%	7.38%	25.77%	15.72%	18.51%
20 Day Average Volume	2,321,689	144,784	2,456,671	4,756,122	4,134,480	2,590,648
(F1) EPS Est 1 week change	0.66%	0.00%	0.00%	0.00%	-0.13%	-2.59%
(F1) EPS Est 4 week change	0.66%	-0.35%	-0.06%	-4.29%	-0.65%	-6.82%
(F1) EPS Est 12 week change	0.59%	-0.52%	-0.41%	-3.72%	0.00%	-6.70%
(Q1) EPS Est Mthly Chg	0.00%	-1.98%	-0.27%	-8.25%	0.76%	-11.57%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	D
Momentum Score	A
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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