

Campbell Soup Company (CPB)

\$48.77 (As of 06/04/20)

Price Target (6-12 Months): **\$52.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/18/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: A

Summary

Campbell Soup's shares have outpaced the industry in the past six months. The company posted robust third-quarter fiscal 2020 results, with earnings and revenues increasing double digits. Further, organic sales surged on strength in Meals & Beverages and Snacks units, courtesy of solid U.S. retail soup sales. Results gained from burgeoning demand across the company's brands, stemming from the increased at-home consumption amid coronavirus. We note that the company saw a more than 6-percentage-point increase in total household penetration. Solid results and expectations of continued demand increases encouraged management to raise its guidance for fiscal 2020. However, the company's profits continue to be affected by input cost inflation and elevated marketing costs. Also, currency volatility is a threat.

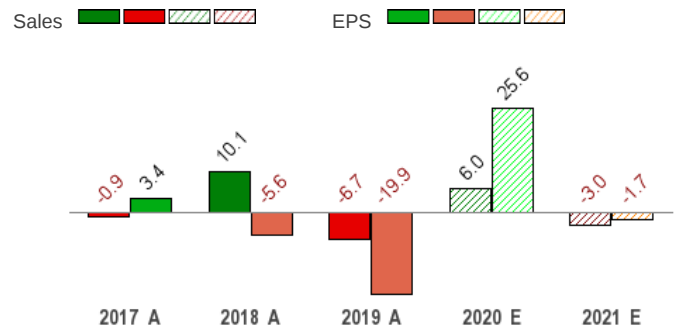
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$57.54 - \$39.24
20 Day Average Volume (sh)	2,957,426
Market Cap	\$14.7 B
YTD Price Change	-1.3%
Beta	0.43
Dividend / Div Yld	\$1.40 / 2.9%
Industry	Food - Miscellaneous
Zacks Industry Rank	Top 16% (40 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	9.2%
Last Sales Surprise	-1.8%
EPS F1 Est- 4 week change	4.6%
Expected Report Date	09/04/2020
Earnings ESP	1.9%
P/E TTM	17.7
P/E F1	16.9
PEG F1	2.4
P/S TTM	1.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,270 E	2,255 E	2,206 E	1,838 E	8,329 E
2020	2,183 A	2,162 A	2,238 A	2,008 E	8,591 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	\$0.85 E	\$0.81 E	\$0.69 E	\$0.55 E	\$2.84 E
2020	\$0.78 A	\$0.72 A	\$0.83 A	\$0.61 E	\$2.89 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, except sales and EPS estimates, is as of 06/04/2020. The reports text and the analyst-provided sales and EPS estimates are as of 06/05/2020.

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.

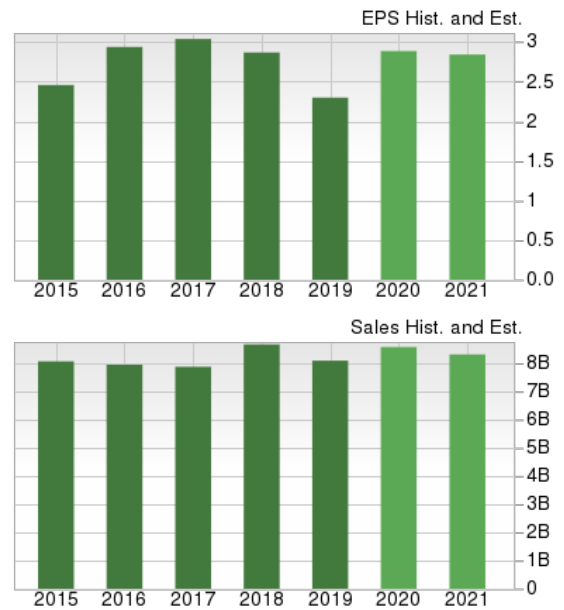
The company concluded the sale of Arnett's and certain International operations to KKR in December 2019. Further, Campbell divested its European chips business in October. Additionally, it divested Campbell Fresh in fiscal 2019 and Kelsen Group on Sep 23. The Campbell Fresh and Campbell International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

The company now reports under the following segments:

- **Meals and Beverages** (54% of Q3 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** (46%) 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:

▲ **COVID-19-Led Demand Boosts Q3 Earnings & Guidance:** Shares of Campbell Soup have gained 3.7% in the past six months against the industry's decline of 5.7%. The company reported robust third-quarter fiscal 2020 results, with earnings and revenues increasing double digits and the former cruising ahead of the Zacks Consensus Estimate. Further, organic sales surged 17%, backed by strength in both Meals & Beverages as well as Snacks segments, courtesy of solid U.S. retail soup sales. Results gained from an unexpected rise in demand across the company's brands, stemming from the increased at-home consumption amid coronavirus. We note that the company's products were bought by millions of new households, leading to a more than 6-percentage-point increase in total company household penetration in the third quarter. Notably, the company saw a double-digit rise in organic sales, adjusted EBIT and the bottom line.

Campbell Soup is benefitting from its fast-growing Snacks business. Also, it is progressing well with its cost savings plan.

Solid results and expectations of continued demand increases encouraged management to raise its net sales, adjusted EBIT and adjusted EPS guidance for fiscal 2020. Campbell Soup now expects both net sales and organic sales for fiscal 2020 to increase in the range of 5.5-6.5%. Earlier, both metrics were projected to be down 1% to up 1%. Adjusted EBIT is now expected to rise 12-14% compared with the previous view of 2-4% growth. The guidance for fiscal 2020 takes into consideration gains from an additional 53rd week. Campbell now expects adjusted EPS in the range of \$2.87-\$2.92, which indicates growth of 25-27% from \$2.30 reported in the year-ago period. Earlier, adjusted EPS was projected to grow 11-13% to \$2.55-\$2.60.

▲ **Focus on Key Businesses in North America:** Campbell Soup has been focused on improving the performance of its Campbell Snacks and Campbell Meals and Beverages segments in the key North American market. Keeping in these lines, the company exited its non-core businesses, as part of which it concluded the divestiture of Campbell International division in December 2019. Also, Campbell Soup offloaded its Campbell Fresh segment in June 2019.

▲ **Strength in Snacks Business:** Campbell Soup is benefitting from its fast-growing Snacks business, which formed more than 45% of the company's top line in the third quarter of fiscal 2020. In this regard, Campbell Soup's buyout of Snyder's-Lance (concluded in the third quarter of fiscal 2018) is enhancing its performance. Markedly, sales in this division rose 9% to \$1,028 million. Excluding the divestiture impact, net sales ascended 12%, driven by higher volumes stemming from increased at-home consumption and solid base business performance. The segment gained from advancements in fresh bakery products, Goldfish crackers, Pepperidge Farm cookies, Kettle Brand and Cape Cod potato chips, Pop Secret popcorn, Snyder's of Hanover pretzels, Lance sandwich crackers, Late July snacks, and Snack Factory Pretzel Crisps. We believe that, brands under the snacking category will continue boosting performance, backed by enhanced marketing and innovation.

▲ **Savings Plan Bodes Well:** Campbell is progressing well with its cost savings plan. 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 third quarter, Campbell generated savings worth \$30 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 \$680 million. Incidentally, the company's adjusted gross margin improved 100 basis points to 34.7% in the quarter on favorable product mix, enhanced operating leverage, gains from supply-chain productivity enhancements and cost-saving actions. Moreover, adjusted EBIT jumped 31% to \$386 million, driven by higher gross margin and sales.

Management continues to anticipate 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 Returns:** Campbell Soup looks well placed on the dividend-payout front. The company paid out dividends worth \$320 million during the first nine months of fiscal 2020 at the rate of 35 cents per share. Notably, Campbell Soup has a dividend payout of 50.9%, dividend yield of 2.9% and free cash flow yield of 5.8%. With an annual free cash flow return on investment of 10.7%, ahead of the industry's 7.2%; the dividend payment is likely to be sustainable.

Reasons To Sell:

- ▼ **Cost Inflation:** During the third quarter of fiscal 2020, gross margin was partly impacted by cost inflation and other supply-chain expenses (including costs associated with COVID-19). Cost inflation and other factors adversely impacted performance by 300 basis points, with one-third of it being accountable to cost inflation. Overall input prices (on a rate basis) rose roughly 1.5%.

Further, the company undertook several marketing investments in the quarter, with most of the spending focused on the soup portfolio. During the quarter, overall marketing expenses escalated 26%, with advertising and consumer promotion expenses seeing a 29% jump. Within the Snacks segment, marketing expenses rose 11% and management intends to double its investment in the fourth quarter in order to retain new consumers. 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.

- ▼ **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.

- ▼ **Debt Analysis:** Campbell Soup's long-term debt of \$5,191 rose 5.5% sequentially at the end of the third quarter of fiscal 2020 — Apr 26, 2020. Further, the company had cash and cash equivalents of \$1,242 million as of the end of the third quarter, whereas its short-term borrowings stood at \$1,504 million.
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Last Earnings Report

Campbell Soup Q3 Earnings Beat Estimates, View Raised

Campbell Soup released third-quarter fiscal 2020 results. We note that the company's products were bought by millions of new households, leading to a more than 6-percentage-point increase in total company household penetration in the third quarter. Notably, the company saw a double-digit rise in organic sales, adjusted EBIT and the bottom line.

Adjusted earnings surged 57% year over year to 83 cents per share, easily surpassing the Zacks Consensus Estimate of 76 cents. The upside was backed by higher adjusted EBIT and reduced interest expenses.

Net sales came in at \$2,238 million in the quarter, which advanced 15% year over year. However, the top line missed the Zacks Consensus Estimate of \$2,278 million. Organic sales (excluding the impact from the divested European business) grew 17% on the back of solid volumes in both Meals & Beverages and Snacks segments. This, in turn, was fueled by higher demand stemming from increased at-home consumption.

The company's adjusted gross margin improved 100 basis points to 34.7% on favorable product mix, enhanced operating leverage, gains from supply-chain productivity enhancements and cost-saving actions. This was partly negated by cost inflation and other supply-chain expenses (including costs associated with COVID-19). Adjusted EBIT jumped 31% to \$386 million, driven by higher gross margin and sales, somewhat negated by elevated marketing investments.

Segment Analysis

Meals & Beverages: Sales in this division rose 20% year over year to \$1,210 million. Excluding currency impacts, net sales grew 21%, backed by strength in the U.S. retail business. The company saw gains in Prego pasta sauces, soups, V8 beverages, Campbell's pasta, Pace Mexican sauces and Swanson canned poultry. Moreover, the company saw sales growth in Canada. However, results were somewhat hampered by weakness in foodservice. U.S. soup sales advanced 35%, thanks to strength in condensed soups, broth and ready-to-serve soups. Further, operating earnings in the Meals & Beverages segment surged 35% on higher sales volume and improved gross profit. This was partly offset by higher marketing spend.

Snacks: Sales in this division rose 9% to \$1,028 million. Excluding the divestiture impact, net sales ascended 12%, driven by higher volumes stemming from increased at-home consumption and solid base business performance. The segment gained from advancements in fresh bakery products, Goldfish crackers, Pepperidge Farm cookies, Kettle Brand and Cape Cod potato chips, Pop Secret popcorn, Snyder's of Hanover pretzels, Lance sandwich crackers, Late July snacks, and Snack Factory Pretzel Crisps. Operating earnings in this segment elevated 19% owing to higher sales volume and enhanced gross profit, partially countered by elevated marketing expenses.

Financials

Campbell ended the quarter with cash and cash equivalents of \$1,242 million, long-term debt of \$5,191 million and total equity of \$2,581 million. Additionally, the company generated \$1,125 million as net cash from operating activities in nine months ended Apr 26, 2020. Campbell paid out dividends worth \$320 million during the first nine months 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 \$30 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 \$680 million. Further, management continues to anticipate cumulative annualized savings from continuing operations of \$850 million by fiscal 2022-end.

Solid results and expectations of continued demand increases encouraged management to raise its net sales, adjusted EBIT and adjusted EPS guidance for fiscal 2020. Campbell Soup now expects both net sales and organic sales for fiscal 2020 to increase in the range of 5.5-6.5%. Earlier, both metrics were projected to be down 1% to up 1%.

Adjusted EBIT is now expected to rise 12-14% compared with the previous view of 2-4% growth. The guidance for fiscal 2020 takes into consideration gains from an additional 53rd week. Campbell now expects adjusted EPS in the range of \$2.87-\$2.92, which indicates growth of 25-27% from \$2.30 reported in the year-ago period. Earlier, adjusted EPS was projected to grow 11-13% to \$2.55-\$2.60.

Fiscal 2020 includes an additional week, the impact of which is included in the guidance for adjusted EBIT, adjusted EPS and net sales.

Quarter Ending 04/2020

Report Date	Jun 03, 2020
Sales Surprise	-1.78%
EPS Surprise	9.21%
Quarterly EPS	0.83
Annual EPS (TTM)	2.75

Recent News

Campbell Declares Dividend – Mar 25, 2020

Campbell Soup declared quarterly dividend of 35 cents per share, which is payable on Apr 27 to shareholders with record as on Apr 9.

Valuation

Campbell Soup shares are up 0.1% in the year-to-date period and 17% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are down 7.3% and 10.1%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry gained 3.1% whereas the sector is down 4.4%.

The S&P 500 index is down 2.4% in the year-to-date period and up 12% in the past year.

The stock is currently trading at 17.12X forward 12-month earnings, which compares to 18.48X for the Zacks sub-industry, 20X for the Zacks sector and 22.55X 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 17.74X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$52 price target reflects 18.25X 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	17.12	18.48	20	22.55
	5-Year High	21.58	22.9	22.37	22.55
	5-Year Low	10.67	14.82	16.65	15.23
	5-Year Median	17.74	18.7	19.7	17.49
P/S F12M	Current	1.76	1.68	9.63	3.51
	5-Year High	2.57	2.05	11.16	3.51
	5-Year Low	0.98	1.41	8.1	2.53
	5-Year Median	1.81	1.81	9.89	3.02
EV/EBITDA F12M	Current	13.35	13.82	34.16	12.31
	5-Year High	13.8	16.59	37.75	12.65
	5-Year Low	6.15	11.67	29.77	9.05
	5-Year Median	10.78	13.23	34.08	10.81

As of 06/04/2020

Industry Analysis Zacks Industry Rank: Top 16% (40 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
The J. M. Smucker Company (SJM)	Outperform	2
Conagra Brands Inc. (CAG)	Neutral	3
General Mills, Inc. (GIS)	Neutral	3
Ingredion Incorporated (INGR)	Neutral	4
Kellogg Company (K)	Neutral	3
The Kraft Heinz Company (KHC)	Neutral	2
TreeHouse Foods, Inc. (THS)	Neutral	2
Sysco Corporation (SYF)	Underperform	3

Industry Comparison Industry: Food - Miscellaneous				Industry Peers		
	CPB	X Industry	S&P 500	CAG	GIS	K
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	3	3	3
VGM Score	A	-	-	A	B	A
Market Cap	14.74 B	3.73 B	22.58 B	16.22 B	36.83 B	22.17 B
# of Analysts	7	3	14	8	8	9
Dividend Yield	2.87%	0.00%	1.87%	2.55%	3.23%	3.52%
Value Score	A	-	-	B	B	C
Cash/Price	0.00	0.05	0.06	0.01	0.02	0.05
EV/EBITDA	13.92	13.37	12.93	16.29	14.83	13.89
PEG Ratio	2.36	3.47	3.06	2.06	2.32	4.44
Price/Book (P/B)	5.71	2.43	3.09	2.06	4.69	6.90
Price/Cash Flow (P/CF)	12.86	12.32	12.17	13.19	14.25	12.06
P/E (F1)	16.88	19.00	22.17	14.44	17.43	17.02
Price/Sales (P/S)	1.76	1.14	2.41	1.56	2.20	1.65
Earnings Yield	5.93%	4.97%	4.27%	6.93%	5.74%	5.87%
Debt/Equity	2.01	0.66	0.76	1.16	1.47	2.38
Cash Flow (\$/share)	3.79	2.68	7.01	2.52	4.26	5.36
Growth Score	B	-	-	C	C	A
Hist. EPS Growth (3-5 yrs)	-1.52%	5.03%	10.87%	-2.98%	2.74%	3.30%
Proj. EPS Growth (F1/F0)	25.59%	1.35%	-10.79%	5.55%	-1.41%	-3.53%
Curr. Cash Flow Growth	-12.42%	4.76%	5.48%	10.04%	5.47%	-9.43%
Hist. Cash Flow Growth (3-5 yrs)	0.50%	5.64%	8.55%	-0.87%	1.32%	-0.49%
Current Ratio	0.84	1.72	1.29	0.87	0.64	0.77
Debt/Capital	66.79%	39.92%	44.75%	53.63%	59.59%	70.39%
Net Margin	18.34%	3.18%	10.59%	7.37%	12.68%	7.61%
Return on Equity	46.05%	10.75%	16.26%	12.08%	26.40%	41.25%
Sales/Assets	0.66	1.11	0.55	0.47	0.55	0.75
Proj. Sales Growth (F1/F0)	-8.29%	0.00%	-2.61%	-3.77%	-3.29%	-1.95%
Momentum Score	A	-	-	B	A	C
Daily Price Chg	-0.10%	0.00%	-0.08%	-1.01%	-1.16%	-1.10%
1 Week Price Chg	5.44%	4.13%	4.60%	6.46%	5.14%	5.19%
4 Week Price Chg	-2.93%	5.11%	12.07%	0.42%	3.39%	3.22%
12 Week Price Chg	2.29%	16.40%	25.17%	37.99%	21.52%	11.20%
52 Week Price Chg	13.39%	-4.06%	0.34%	12.34%	18.37%	16.03%
20 Day Average Volume	2,957,426	222,245	2,537,324	3,058,563	3,395,599	2,107,158
(F1) EPS Est 1 week change	1.84%	0.00%	0.00%	0.11%	0.00%	0.00%
(F1) EPS Est 4 week change	4.55%	0.00%	-0.08%	-0.11%	0.90%	0.00%
(F1) EPS Est 12 week change	12.16%	-0.78%	-16.19%	3.55%	1.68%	1.00%
(Q1) EPS Est Mthly Chg	2.81%	0.00%	0.00%	-2.40%	1.96%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	A
Growth Score	B
Momentum Score	A
VGM Score	A

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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