

Campbell Soup Company (CPB)

\$48.02 (As of 01/17/20)

Price Target (6-12 Months): **\$51.00**

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:B

Value: C

Growth: B

Momentum: B

Summary

Campbell's shares have outpaced the industry in the past year. The company is benefiting from its board-led strategy and portfolio review. To this end, it is increasing focus on the growing snacks category and divesting underperforming units. Incidentally, the company divested Campbell Fresh and is on track to sell Campbell International, which will help increase focus on the core North American region. Apart from this, Campbell's cost-saving efforts are likely to offer cushion against input cost inflation, which weighed on the Meals & Beverages unit during the first quarter of fiscal 2020. During the quarter, earnings rose and surpassed the consensus mark but sales were hurt by weakness in the Meals & Beverages unit. Further, management trimmed fiscal 2020 sales view due to the European chips business divestiture.

Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$49.56 - \$32.17
20 Day Average Volume (sh)	1,813,933
Market Cap	\$14.5 B
YTD Price Change	-2.8%
Beta	0.43
Dividend / Div Yld	\$1.40 / 2.9%
Industry	Food - Miscellaneous
Zacks Industry Rank	Top 38% (96 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	13.0%
Last Sales Surprise	-0.5%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/26/2020
Earnings ESP	0.0%
P/E TTM	19.0
P/E F1	18.9
PEG F1	3.2
P/S TTM	1.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,172 E	2,186 E	1,964 E	1,826 E	8,124 E
2020	2,183 A	2,164 E	1,938 E	1,883 E	8,168 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	\$0.82 E	\$0.73 E	\$0.61 E	\$0.53 E	\$2.67 E
2020	\$0.78 A	\$0.64 E	\$0.58 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 01/17/2020. The reports text is as of 01/20/2020.

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.

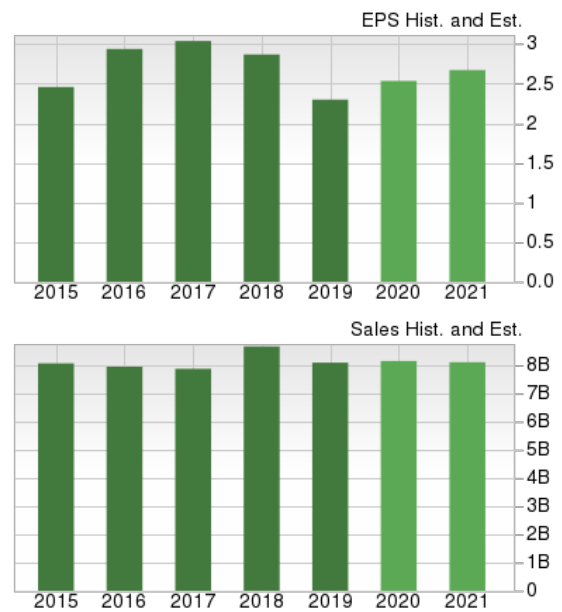
The company divested Campbell Fresh in fiscal 2019 and Kelsen Group on Sep 23. Additionally, Campbell divested its European chips business in October 2019. Further, it anticipates concluding the sale of Arnett's, and some of Campbell International operations in the second quarter. The Campbell Fresh and Campbell International segments are now part of discontinued operations.

The company now reports under the following segments:

- **Meals and Beverages** (55% of Q1 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** (45%) 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:

▲ **Actions Post Board-Led Strategy & Portfolio Review Drive Stock:** 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 divested Campbell Fresh in fiscal 2019 and Kelsen Group on Sep 23. Further, it anticipates concluding the sale of Arnett's and some of Campbell International operations in the second quarter. Additionally, Campbell divested its European chips business in October.

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.

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. Such efforts seem to have boosted investors' confidence. Shares of the company have gained 39.7% in a year compared with the industry's growth of 15.3%.

▲ **Acquisitions to Enhance Portfolio:** In an attempt to enhance its brand portfolio and accelerate future growth, Campbell remains keen on making acquisitions. In this respect, Campbell concluded the buyout of Snyder's-Lance during third-quarter fiscal 2018, which is contributing to the top line. Prior to this, the company acquired leading organic broth and soup producer, Pacific Foods, in a drive to expand in the fast-growing organic food space. Campbell's buyouts are expected to keep fueling its performance.

▲ **Focus on Snacks Business, a Strong Driver:** 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, sales in this division went up 2% to \$989 million in first-quarter fiscal 2020. Organic sales also improved 2%. The segment gained from advancements in Pepperidge Farm cookies, Kettle Brand potato chips, Goldfish crackers, Cape Cod and fresh bakery products. Going ahead, management expects that 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 \$605 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 cash flow from operations of \$182 million in the first quarter. 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. Notably, the company paid out dividends worth \$107 million during the quarter at a quarterly rate of 35 cents.

Reasons To Sell:

▼ **Cost Inflation:** During the first quarter of fiscal 2020, operating earnings in the Meals & Beverages segment declined 3% to \$282 million, due to cost inflation and lower sales. Also, input cost inflation weighed on the segment's gross margin. Higher input costs stemmed from escalated prices of steel cans along with vegetable and flower costs, among others. Management earlier stated that it expects overall cost inflation of nearly 3% in 2020, which is likely to affect profits.

Campbell Soup is battling cost inflation. Management expects overall cost inflation of nearly 3% in 2020, which is likely to hurt profits.

▼ **Soft Sales & Trimmed View:** Campbell Soup's net sales dropped 1% to \$2,183 million in the first quarter due to softness in the Meals & Beverages unit. Sales in this segment were marred by unfavorable timing of U.S. soup shipments. Notably, U.S. soup sales declined 3%, due to adverse movements in retailer inventory levels across broth and condensed soups. Further, management trimmed its sales view for fiscal 2020, considering the divestiture of its European chips business, which was conducted on Oct 11.

For fiscal 2020, net sales are now projected between a decline of 1% and an increase of 1% compared with the previous guidance of 1-3% growth. Organic sales are also expected in the same range as net sales.

▼ **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.

Last Earnings Report

Campbell Q1 Earnings Top, Sales View Cut on Divestiture

Campbell released first-quarter fiscal 2020 results. Adjusted earnings from continuing operations advanced 10% year over year to 78 cents and surpassed the Zacks Consensus Estimate of 69 cents. The upside was backed by greater adjusted EBIT and reduced interest expenses.

Net sales dropped 1% to \$2,183 million, owing to softness in the Meals & Beverages unit, somewhat compensated by strength in the Snacks unit. Further, the top line missed the Zacks Consensus Estimate of \$2,194 million.

Moving on, adjusted gross margin improved 0.3 percentage points on the back of cost-saving efforts, productivity enhancements and gains from the recent pricing actions. This was partly negated by cost inflation and elevated promotional expenditure.

Adjusted EBIT rose 6% to \$392 million, driven by reduced adjusted administrative costs, greater adjusted other income and enhanced gross margin.

Segment Analysis

Meals & Beverages: Sales at this division dropped 3% year over year to \$1,194 million. Further, the segment's organic sales dropped 3%. Sales were marred by unfavorable timing of U.S. soup shipments. Notably, U.S. soup sales declined 3%, due to adverse movements in retailer inventory levels across broth and condensed soups. Sales of ready-to-serve soups were flat year over year. The segment gained some respite from improvements in Prego pasta sauces. Operating earnings in the Meals & Beverages segment declined 3% to \$282 million, due to cost inflation and lower sales.

Snacks: Sales at this division rose 2% to \$989 million. Organic sales also improved 2%. The segment gained from advancements in Pepperidge Farm cookies, Kettle Brand potato chips, Goldfish crackers, Cape Cod and fresh bakery products. Operating earnings in this category were flat at \$125 million as cost-saving efforts and supply-chain productivity plans were offset by elevated marketing and cost inflation.

Financials

Campbell ended the quarter with long-term debt of \$6,706 million and total equity of \$1,249 million. Additionally, the company generated \$182 million as net cash from operating activities in the first quarter. Campbell paid out dividends worth \$107 million during the first quarter 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 \$605 million. Further, management continues to anticipate cumulative annualized savings from continuing operations of \$850 million by fiscal 2022-end.

For fiscal 2020, net sales are now projected between a decline of 1% and an increase of 1% compared with the previous guidance of 1-3% growth. Organic sales are also expected in the same range as net sales. Adjusted EBIT is still expected to rise 2-4% and adjusted earnings per share 9-11% to \$2.50-\$2.55.

The guidance for fiscal 2020 takes into consideration gains from an additional 53rd week. Moreover, management highlighted that proceeds from the sale of Campbell Fresh, Campbell International and the European chips business are being used to curtail debt load.

Quarter Ending 10/2019

Report Date	Dec 04, 2019
Sales Surprise	-0.51%
EPS Surprise	13.04%
Quarterly EPS	0.78
Annual EPS (TTM)	2.53

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 39.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are up 15.3% and 20.3% over the past year, respectively.

The S&P 500 index is up 26.5% in past year.

The stock is currently trading at 18.47X forward 12-month earnings, which compares to 18.46X for the Zacks sub-industry, 19.97X for the Zacks sector and 19.2X 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 17.88X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$51 price target reflects 19.62X 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	18.47	18.46	19.97	19.2
	5-Year High	21.58	22.9	22.38	19.34
	5-Year Low	10.67	14.82	16.66	15.17
	5-Year Median	17.88	19.19	19.76	17.44
P/S F12M	Current	1.78	1.76	10.26	3.57
	5-Year High	2.57	2.05	11.13	3.57
	5-Year Low	0.98	1.44	8.09	2.54
	5-Year Median	1.79	1.81	9.87	3
EV/EBITDA F12M	Current	12.92	14.08	34.37	12.66
	5-Year High	13.19	16.59	37.22	12.66
	5-Year Low	6.9	11.67	29.37	9.08
	5-Year Median	10.76	13.26	33.52	10.78

As of 01/17/2020

Industry Analysis Zacks Industry Rank: Top 38% (96 out of 254)



Top Peers

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

Industry Comparison Industry: Food - Miscellaneous				Industry Peers		
	CPB Neutral	X Industry	S&P 500	CAG Neutral	GIS Neutral	K Neutral
VGM Score	B	-	-	B	B	B
Market Cap	14.49 B	4.41 B	24.65 B	16.22 B	32.57 B	24.18 B
# of Analysts	5	3.5	13	7	7	6
Dividend Yield	2.92%	0.11%	1.73%	2.55%	3.64%	3.22%
Value Score	C	-	-	B	A	C
Cash/Price	0.00	0.03	0.04	0.01	0.02	0.02
EV/EBITDA	14.81	13.69	14.11	16.36	13.33	14.90
PEG Ratio	3.15	2.27	2.08	2.24	2.27	2.93
Price/Book (P/B)	11.60	2.96	3.39	2.11	4.06	7.35
Price/Cash Flow (P/CF)	12.66	13.39	13.81	13.20	12.63	12.03
P/E (F1)	18.91	18.83	19.19	15.68	15.86	17.60
Price/Sales (P/S)	1.64	1.39	2.69	1.54	1.94	1.77
Earnings Yield	5.29%	5.02%	5.21%	6.39%	6.30%	5.69%
Debt/Equity	5.37	0.62	0.72	1.21	1.37	2.45
Cash Flow (\$/share)	3.79	2.72	6.94	2.52	4.26	5.89
Growth Score	B	-	-	D	C	C
Hist. EPS Growth (3-5 yrs)	-0.30%	5.08%	10.56%	-2.47%	2.82%	3.43%
Proj. EPS Growth (F1/F0)	10.26%	7.85%	7.57%	5.76%	5.41%	3.70%
Curr. Cash Flow Growth	-12.42%	3.82%	14.73%	10.04%	5.47%	6.86%
Hist. Cash Flow Growth (3-5 yrs)	0.50%	7.12%	9.00%	-0.87%	1.32%	1.17%
Current Ratio	0.60	1.57	1.24	0.88	0.61	0.80
Debt/Capital	84.30%	38.38%	42.99%	54.72%	57.73%	71.00%
Net Margin	2.07%	2.79%	11.14%	7.62%	12.62%	5.35%
Return on Equity	64.48%	11.60%	17.16%	12.50%	27.33%	42.47%
Sales/Assets	0.66	1.17	0.55	0.47	0.55	0.76
Proj. Sales Growth (F1/F0)	-12.79%	2.51%	4.16%	12.57%	2.14%	-2.03%
Momentum Score	B	-	-	B	C	A
Daily Price Chg	-0.15%	0.00%	0.27%	3.19%	0.24%	0.20%
1 Week Price Chg	-1.45%	0.00%	0.39%	-4.53%	0.60%	1.87%
4 Week Price Chg	-0.41%	1.51%	2.95%	-0.98%	1.22%	6.14%
12 Week Price Chg	2.00%	6.36%	7.76%	23.03%	5.36%	14.95%
52 Week Price Chg	34.21%	16.69%	22.29%	56.92%	25.32%	19.57%
20 Day Average Volume	1,813,933	105,008	1,536,375	4,403,364	3,265,569	1,467,302
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.74%	0.68%	0.07%
(F1) EPS Est 12 week change	0.34%	-0.92%	-0.40%	0.51%	0.81%	-0.81%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-2.26%	-4.47%	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	C
Growth Score	B
Momentum Score	B
VGM Score	B

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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