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CPB - Campbell Soup Company at RBC Capital Markets Consumer & Retail Conference

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CORPORATE PARTICIPANTS

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CONFERENCE CALL PARTICIPANTS

David Palmer *RBC Capital Markets - Analyst*

PRESENTATION

David Palmer - *RBC Capital Markets - Analyst*

Good morning, everyone. We are honored to have Craig, Irene, Mark, Jennifer joining us here from Campbell Soup today.

As a reminder, this is going to be a fireside chat format. We are going to ask you if you want to ask a question please write it down on the postcards there in front of you. We very much welcome your questions.

First, I would like to say congratulations to Craig Owens, Senior VP, Chief Financial Officer, Chief Administrative Officer who is retiring from Campbell Soup in May. Craig joined Campbell over five years ago in his current role. He has more than 30 years of experience in the food and beverage industry serving as CFO of the Delhaize Group and before that senior financial positions at the Coca-Cola Company and Coca-Cola bottlers for 20 years or so.

I am pleased to have Mark Alexander and Irene Chang Britt with us as well. Mark is a Senior VP and President Campbell North America, a position he has had for over two years, and then two years before that he was President of International. While Mark looks young he has been with Campbell for about 24 years including various management and marketing roles in the Company.

Irene Chang Britt is President of Global Banking and Snacking, President of Pepperidge Farm. She has been with the Company almost nine years and has led Campbell's beverage business and its food service business at other times as well as global strategy. Previous to her time with Campbell Irene spent eight years with Kraft Foods including time as general manager of the salted snacks division and Post Cereal division.

Jennifer, who looks very young, is VP of Investor Relations. She is with us here today, thank you. And Jennifer has 20 years experience in finance and communications, the last four of Campbell and eight years before that with Best Buy.

Campbell recently presented at the CAGNY Conference and spoke of its strategic pillars in light of the long-term consumer realities in eating today. Perhaps, Craig, I don't know if you want to kick this off, could you take a few minutes to speak about the issues, opportunities and the strategy that Campbell has in addressing those?

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

Yes, I will start and Mark and Irene can chip in too. Denise really talked about a lot of big consumer trend ideas. The way I think about almost all of what we are trying to do strategically is to move ourselves into faster growing territory, finding faster, identifying and moving into faster growing territory, or finding territory that is underexploited by our current brands.

So examples would be the acquisition of Bolthouse Farms, which moved us into a meaningful way into the package fresh part of the spectrum of the food business, if you think about it in terms of grocery geography into the perimeter of the store in a way that we hadn't really been before. We've got a lot of work going on particularly in the US around alternative channels, so whether that's club stores, dollar stores where we tend to



under index a little bit or in immediate consumption, where we have now with a bigger beverage portfolio between Bolthouse and V8, we feel like we've got a renewed opportunity to get our beverages more volume in the immediate consumption channel.

So we are also looking internationally to exploit both our current brands and also looking at acquisition opportunities. We acquired Kjeldsens which is a Danish company but actually has a lot of emerging market exposure particularly in China and Hong Kong with their brands and gives us a platform we think over time to move some of our other cookie and cracker brands into some of those markets. So those are some of the examples of how we are trying to exploit some of the bigger trend things that we see going on with the consumer.

Mark Alexander - *Campbell Soup Company - SVP & President, Campbell North America*

I think that is the theme certainly that informs what we are doing in Campbell North America as well, is looking around for where there are pockets of growth, where there are underserved consumer groups. For us we under index against younger consumers, millennials, as well as Hispanic consumers, so we've got a lot of activity in that space.

Cooking behavior, believe it or not, is a growing behavior. People cooking at home, people making convenient healthy meals for their family.

We have a big part of our portfolio that's dedicated to doing that. We are very active in terms of marketing and innovating in that space.

Irene Chang Britt - *Campbell Soup Company - President, Pepperidge Farm and SVP, Global Baking and Snacking*

And snacking, obviously, is very much on trend, has a lot of growth potential overall in the category. And we are leveraging, especially from a consumer standpoint, our entire Campbell's portfolio really spans boomers all the way down to millennials.

So boomers very much in that cooking space and some of the cookies all the way down to goldfish, which millennials are constantly growing up with and passing through. So I think we have a broad range that we can leverage and it is about pulling the scale across the Company and leveraging that.

David Palmer - *RBC Capital Markets - Analyst*

Let's dig into soup first. I believe Campbell's first goal was to stabilize profit trends then restore the topline with soup. Simple Meals seem to be strengthening consumption for US soup was still down 1% in the first half of the fiscal year. People are wrestling with how to view your trends.

There's a lot of innovation coming. How do you feel, what is the state of the union for soup and how do you feel about the impact of weather and what is convincing you as you look through the detailed numbers about why you feel like that stabilization and growth is now happening?

Mark Alexander - *Campbell Soup Company - SVP & President, Campbell North America*

I think we looked at the stabilization phase really about being competitive again in the category. It's not a secret. We lost share for number of years in the soup category.

And I think if you look at our results last fiscal year we gained a tiny bit of share. We are holding our share this year, so we look at what we are doing, you know, market share is not driven by weather. Market share is driven by performance in your market.

So our focus on really driving the quality and the taste of our products, ramping up our innovation in soup, fine tuning our marketing, deploying more into digital, really working across, really getting our merchandising frequency in the right place, so getting all of those basics in the right place, I think, has brought us to a place now where we're pretty competitive in the category, for two years running, which has been a while. The

profit growth is there and that's why we talk about, look we're sort of in, we feel good that we have stabilized, we are competitive, we are there again.

The focus now very much is on grow. For us we've got a big share, we got to grow the category if we are going to grow and that is what we are focused on doing now.

David Palmer - *RBC Capital Markets - Analyst*

One of the things that you touched on in your prepared remarks and certainly Denise talked about it at CANGY was that millennials and going the strategy of the Company is aggressively going after that, some of the acquisitions seemed to touch on that, the attributes and certain wellness things like fresh, for instance. Could you just talk about what you are doing in your different platforms to target that group and eventually reaccelerate growth?

Mark Alexander - *Campbell Soup Company - SVP & President, Campbell North America*

Yes, Denise talked about it at CAGNY where we do under index against that younger consumer cohort. We've got in Campbell North America, about an 85% index against the millennial consumer.

And it is a big fast-growing group of consumers, a lot of spending power out there, so very attractive segment for us. Also for the long term of our Company to get our brands fully penetrated with that group as they come through.

So, you are right, it's informing our acquisition strategy for Bolthouse Farms as well as Plum Organics. Plum Organics is a fantastic millennial brand. You get to be a millennial to be having babies and so, mostly, so that is one.

And then within our existing portfolio, the range of premium soups that we've put out there with Campbell's Slow Kettle, with the bisques, with the Go! soups, those products are all indexing higher with millennial consumers. And the last example I'd give is our new cooking sauce platform, which has been building over the last couple of years, started with the launch of skillet sauces and easy 1-2-3, put your chicken in the pan, put the sauce on, cook it up you've got a chicken dinner.

Now with slow cooker sauces, which are doing very well, they are in fact, larger than skillet sauces is now. Denise mentioned at CAGNY we are coming out with a third leg of that platform which is oven bakes, lots of new products coming through.

We have carved out a 4 foot section in over half of the stores in the US now. So we're really creating a platform here for easy tasty cooking, which is highly relevant to millennial consumers.

Irene Chang Britt - *Campbell Soup Company - President, Pepperidge Farm and SVP, Global Baking and Snacking*

And in baked snacks, the millennial population makes a lot of sense not only for snacks and also for fresh bakery. So it's not just this generation, this millennial generation is the one that grew up while Goldfish was really getting its momentum as an icon in the industry. And so as they also the older edge becomes young adults and therefore young parents, they are transferring that love of that icon to their kids, which is terrific.

On the other side, people talk about fresh bakery and where is the innovation there. One of the things that we did with swirl bread specifically is you will have noticed in the past year we have gained 3 household points of penetration in bread, which is very hard to do on the basis of swirl. And that was young families, young forming families, actually coming into the franchise because of the innovation that has been brought there.



David Palmer - RBC Capital Markets - Analyst

There's been a lot of fascination with the beverage business, the new distribution, could you talk about how you are changing your go to market on beverage and what the opportunity is for the Company there.

Mark Alexander - Campbell Soup Company - SVP & President, Campbell North America

We've been working with Coca-Cola Company for the last five years. We had a distribution arrangement with them. That contract came to an end at the end of last calendar year and we knew that, we had moved into different strategic directions over that period of time, so we have been working for some time now to build up our own direct sales and distribution capabilities.

So we now you have an immediate consumption sales force, a set of distribution management folks and we have signed up really a network of beverage distributors right across the country that will allow us to go after and I think drive the penetration of our product through those channels. So we're pretty excited about the opportunity to sort of take that into our own hands and drive it through and also the opportunity to put a bit more time and attention into innovating specifically in that space, in that channel with pack formats and varieties and so forth it will be relevant for the immediate consumption space.

David Palmer - RBC Capital Markets - Analyst

Irene, there is no doubt that healthy or better for you snack foods are a hot area right now and obviously you have a tremendous brand there with Pepperidge Farm. What are some of the competitive dynamics you are seeing out there?

We've seen some players talk about having to augment their DSD capabilities because the competition has gotten to them and you seem to be doing fantastically. But could you talk about the competitive environment, your innovation and how you're doing to hold your own in terms of that in-store marketing side of things?

Irene Chang Britt - Campbell Soup Company - President, Pepperidge Farm and SVP, Global Baking and Snacking

Absolutely. So, Pepperidge has a fairly unique standing in the overall industry in that we are premium but we are pretty broad market access appeal as well and so we've got a great position that way which gives us quite a whole halo. Our heritage is wholesome.

And especially because we have that fresh bread as the anchor of our Company, actually, it gives us quite a wholesome halo across the line. So from a health and wellness standpoint we are focusing on things that are better for you.

So for instance, Goldfish Puffs that came out, which is a delicious healthy snack is also gluten-free. And so we are emphasizing things like that.

It's, as you point out David, a very competitive area. Snacks, by the national eating trends data, snacks incidents of eating habits actually overtaken meals at this point and this is the first tipping point for the entire industry that snacks has overtaken.

So it is of interest to everybody. We are very happy with the unique position that we have.

David Palmer - RBC Capital Markets - Analyst

In recent months some investors are beginning to wonder if there is some significant weakness in the consumer not just weather out there, certainly restaurants got hurt. Some of the at-home meal categories, and I'm talking broader than soup, it seemed like a lot of companies that are more meal oriented in their portfolios, had a little bit better trends in the last two to three months. What are your thoughts about the consumer in general and the behavior recently?

Mark Alexander - *Campbell Soup Company - SVP & President, Campbell North America*

I think it's a very slow recovery for the consumer. It's sort of moving in months and years rather than in days and weeks and so I think the consumer is still under a lot of pressure.

You've got fairly stagnant wages, you've got different things going on with payroll taxes, you've got SNAP adjustments, you've got all kinds of different things going on, which are putting some pressure on discretionary spending. So there is no doubt that the consumer is pretty careful in terms of parting with his and her dollar in the store, which means we've got to be as much or more on our toes than ever with providing great relevant products, adding good value to the consumer.

We see the same trends you do, David, in terms of meal solution space is doing pretty well. I think there is no doubt that if you can help the consumer put a good wholesome meal on the table for her family for 10 bucks or less, that you are really hitting the sweet spot of what a lot of folks out there are looking for right now. We've got a big chunk of our portfolio that is geared to do that.

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

And a lot of the innovation is geared exactly at that.

David Palmer - *RBC Capital Markets - Analyst*

Let's just dig into that because I totally agree from where I sit, protein is in and the fact that you have parts of your portfolio digital interaction to recipes, products, you seem to be mobilizing your portfolio to go after that occasion. Can you talk about how much of your business is really geared towards that and how much that can touch on maybe numerically how that can really help your growth.

Mark Alexander - *Campbell Soup Company - SVP & President, Campbell North America*

So if we look at our US Simple Meals reporting segment, close to half of that is cooking ingredient meal solution products, so we do see ourselves as a meal solution company. Part of the core equity of our icon brand, Campbell Soup, is cream of mushroom, cream of chicken, which you use in recipe.

We've got Swanson broth, we've got Prego spaghetti sauce, we've got -- a lot of Pace is used in cooking. Our new products, our dinner sauces, skillet and slow cookers. So we've got this incredible arsenal of meal solutions orientated products.

And to your point in terms of marketing we've got a lot of innovation pressure in that space, new broths. We've just launched eight new soups in January, for the first time in many years we've had a midseason launch. A number of those are cooking items and the way we are engaging with consumers around those things is shifting quickly.

You don't have to go to many years ago where the primary method of getting recipe ideas was print media or word-of-mouth. It is now digital, social, or mobile. So we're moving a lot of our marketing dollars and our communication dollars onto digital platforms, onto social media and interacting with consumers there particularly in the recipe and meal solution space.

David Palmer - *RBC Capital Markets - Analyst*

There has been some changes in the portfolio. You've touched on some of them.

The Company sold the European soup business, Bolthouse Farms, Plum and Kjeldsens were added. Can you talk about what you have learned through these processes, how are these new businesses doing now that they are in-house?



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

The good news is, Bolthouse particularly, which is the one that we've had the longest period of time, we've had that one a little over a year now, we feel like we are off to a really good start. It is performing very much at or above the kind of targets that we had for it in the acquisition, which is to say that the produce carrot side of the business is a reliable, relatively slow growth, good cash flow business and the beverage and salad dressing side of the business has been pretty high-growth.

They are the share leader in measure channels now and the super premium beverage, chilled beverage area. They have with the rollout of salad dressing, which is really not complete in terms of penetration across the country yet, it has continued to build and to do well there. Their innovation pipeline has been good.

So all of that has been positive and has been really welcome. And as we said earlier, we thought it was a good business, we thought we were buying it for good value for what it was but we also see it as a platform opportunity for us to do more things in package fresh over time. So more news later on that front but we continue to believe that that is a possibility for us.

With Plum, a much smaller business and one that we haven't had nearly as long but again, pretty good match for some of the strategic things that we are looking for. Fast growing in the sense that organic baby food is a really rapidly growing piece of the baby food sector. It's a brand opportunity that we think has expandability beyond just babies and into kids.

If you think about the kind of food and the kind of products, it has everything from vegetable and fruit, entree kinds of offerings to snacks. There are things that we know how to do and it will ultimately be able to, I think, be really beneficial to them in terms of R&D work and that sort of thing.

And then with Kjeldsens, it gives us a global business, sort of an unusual one, but one that has a good footprint and I guess as a CFO, having a good footprint in emerging markets but with sort of Danish control, and Danish quality assurance and everything, that's a nice place to be. All of those two, again from sort of a financial perspective, all of them have sort of a natural gross profit expansion opportunity over time.

Bolthouse with the packaged piece of their portfolio growing a lot faster than carrots, there's kind of a natural margin expansion opportunity there as they grow. Plum, not a profitable business as we bought it.

It needs scale. We can help do that and we got a lot of synergy I think particularly in the sales effort with Plum.

And then with Kjeldsens their emerging market business, unusually, happens to be their highest margin business. So that's another opportunity for us as that grows a little bit faster than the base.

David Palmer - RBC Capital Markets - Analyst

Just dovetailing off of that, Campbell reiterated that its long-term targets at CAGNY, 3% to 4% topline, EBIT 4% to 6%, EPS 5% to 7%, is still the right long-term targets. This year is going to be below that. Why do you believe that those growth targets are still appropriate and what are some specific reasons why you think you'll get back to that growth?

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

Obviously we think about that and talk about that a lot. So in the strategic process whether you cut it and think about population growth in the territories that we serve and inflation assumptions about territories that we serve, whether you look at category growth, or GDP growth, all of that will get you to the idea that there is sort of a natural growth opportunity that you ought to realize that, let's call it something between 2% and a little over 2%.

We think then that we through the things that we do whether better execution, whether expansion into some of these faster growing pieces of either geography or category ought to be, that we ought to be able to add another point or so on top of that kind of natural growth rhythm. And that kind of gets you into the territory that we are talking about here.

We are disappointed that were not there yet although we do recognize that we have in effect we have closed the gap against some of our peers. Unfortunately, most of the closing has been the peers coming back to us over a pretty difficult couple of years here.

But as Mark said, it's very encouraging to us and to all of us that within our main core business that we now are seeing much better share performance. So I think our feeling is that as the consumer gets back in the game a little bit and as the category picks up a little bit if we continue to perform well on the share front, that we will have some natural tailwinds.

David Palmer - *RBC Capital Markets - Analyst*

Let's try to squeeze in two more questions, one for Mark and one for Irene. Mark, Campbell's sales growth outpaced the consumption in the first half.

You are introducing new soups coming into the second half and I think that you are hopeful about that lineup. Could you just talk about how the early sell through on that has been and maybe what makes you feel good about that new product lineup?

Mark Alexander - *Campbell Soup Company - SVP & President, Campbell North America*

Yes, very early we have a mix of things that we've got sort of three different ideas we launched. One was a couple of new varieties of the Chunky pub line. We've had two years in a row now of just outstanding performance on the new products on Chunky.

And so we're just sort of stoking the fire with that one. I think in terms of early sales results I am not sure but the last batch we launched are all in the first or second quartile from a velocity standpoint in the category, so I think that that one feels very good.

The second one is around Healthy Request. Healthy Request is a nice little growth pocket for us. Our Healthy Request brand is positioned as heart health, it is lower in sodium, good for your heart, and that whole portfolio is growing at a nice clip, so we've added a couple of varieties in there.

And then one new one, which is three Latin inspired cooking soups. So this is a bit of a new idea for us and we are going in there trying to go after the Hispanic consumer and people who enjoy that type of cooking with some new condensed cooking soups with Latino flavors and we will do some marketing behind that, we'll see how that goes.

David Palmer - *RBC Capital Markets - Analyst*

And then, Irene, I think it's been a year since Hostess, or more maybe, now went bankrupt. Bread is a big part of the Pepperidge Farm business. Could you talk about the bakery space and can you maintain those market share gains and how the outlook for that business is.

Irene Chang Britt - *Campbell Soup Company - President, Pepperidge Farm and SVP, Global Baking and Snacking*

Sure. There's a few interesting things about the bread category in the past year and a bit since they came out of the market. In the year that they came out, those brands came out, the category actually grew more than it had in the most recent three years before that, which is very interesting.

Underlying that there was a bifurcation. Consumers in the face of choice actually traded up to premium us particularly, and some of the other premium products on the market and down to private label. And the knock-on effect from that is that the retailers benefited from additional margin.



And so as we cycled that and went back out to talk to the retailers about maintaining the shelf space as the brands are coming back in, the retailers have primarily agreed with us that the benefit that they got from the premium bread velocities was so great that they actually are standing behind that decision to increase the shelf space for premium bread, and we are very, obviously, happy about that decision. The other -- so when you take all of that into account, you take a look at our latest 13 weeks of consumption, and the Pepperidge Farm fresh bread is up 4%, which is 1 point better than the category and that 13 week period is fairly indicative of not only cycling the Hostess benefit for us but also the Hostess brand is now coming back onto the market.

David Palmer - RBC Capital Markets - Analyst

Great. Well, thank you very much Pepperidge Farm and Campbell Soup team.

I think we all look very good. We've established that. We all look very young. (multiple speakers) (laughter)

Irene Chang Britt - Campbell Soup Company - President, Pepperidge Farm and SVP, Global Baking and Snacking

I hope that gets written up.

David Palmer - RBC Capital Markets - Analyst

Thanks again.

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