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## Campbell's big gamble

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Fresh and healthy are in. Packaged foods are out.

There have been seismic shifts occurring in the food industry, mainly driven by changes in demographics, consumer food preferences and consumer spending behaviors. That's a problem for food and beverage companies, including the region's own Campbell Soup Co., which reported its domestic soup sales declined 10 percent in the third quarter.

"It's a center-of-the-store problem; the center of the supermarket is not a place you want to be in these days," said [Louis J. Biscotti](#), partner at WeiserMazars. "Kellogg's, Kraft and Coke are going through this transformation because of the dynamics that are taking place in the environment with the demographic of people now and the tastes of what young people are."

Consumers are now gravitating toward the perimeters of the supermarket where fresh food both by established health brands and up-and-coming brands are displayed. This evolved as a result of baby boomers making lifestyle changes, and millennials growing up with certain gastronomic tastes and a corporate-transparency mentality.

“It has everything to do with the focus on healthy and nutritious, focus on labeling, local and organic, and millennials not having the brand loyalty,” **Biscotti** said. “All of those factors are hitting at once and really hurting these companies.”

Companies are now tasked with adapting to the changing food environment while keeping their heads above water in a volatile environment. It’s an ongoing shift toward a new normal.

Campbell’s President and CEO [Denise Morrison](#), who took the helm of the nearly 150-year-old Camden-based company in 2011, said the company’s been very clear-eyed about those changes.

“You can lead change or be a victim,” Morrison told the Philadelphia Business Journal.

“It’s so much more fun to lead it. We’re not losing sleep. We don’t have time for that. We are definitely pursuing opportunities that come with change with a vengeance.”

Revenge is a dish best served cold.

### **A fresh start**

In January, Campbell’s said it would undergo a companywide restructuring that would align its business strategies and drive focused investment on its largest growth opportunities like its burgeoning packaged fresh division while greatly reducing costs. Under the initiative, which is expected to be completed by fiscal 2016, Campbell’s portfolio would be managed under three divisions separated by product category: Americas Simple Meals and Beverages, Campbell Fresh, and Global Biscuits and Snacks. Formerly called Packaged Fresh, Campbell’s C Fresh division is spearheaded by Bolthouse Farms, which the company acquired in 2012 for \$1.55 billion — a major investment that closed a year after Morrison was appointed CEO.

“Making it its own segment demonstrates it’s probably on good footing in terms of sales, margins and gross trajectory,” said [Alexia Howard](#) of Sanford C. Bernstein and Co., an investment research firm. “They’re willing to disclose how that part is doing now in isolation. They’re comfortable with that part of the business.”

Bolthouse is included in Campbell’s Bolthouse and Foodservice segment, which in total accounted for more than \$1.38 billion of Campbell’s \$8.27 billion in net sales. Campbell’s reported a nearly 5 percent increase for the segment year over year, according to annual reports.

In fiscal 2013, the first full year it had been in the Campbell's portfolio, Bolthouse accounted for \$1.32 billion of the company's \$8.05 billion in net sales.

Prior to the acquisition, Campbell's net sales ranged from \$7.09 billion in fiscal 2010 to \$7.18 billion in 2012, according to annual reports.

"With Bolthouse, the exciting thing was that Campbell's didn't pay an absolute fortune for it," Howard said. "It really has done well and they've made good choices over time ... [that's] allowed them to get into deeper distribution networks" like convenience stores with Bolthouse's line of premium juices.

"Packaged Fresh is the highest-order segment, which we are attacking," said Jeff Dunn, president of Campbell's fresh segment. "C Fresh was about leveraging this new Campbell's portfolio and fresh infrastructure to capture more categories through more brands in more opportunities."

It's the evolution that started with Bolthouse to building a "scaled-up, highly competitive competitor on the perimeter" of consumers' stores, Dunn said.

"That's where a disproportionate amount of growth is being generated," he said. A look into the company's total sales, profit margin and earnings per share — numbers that provide an indication of a company's overall growth and profitability — shows Campbell's seems to be succeeding in its goal of growing and changing with the times. Its net sales, as reported, have increased nearly 17 percent from 2010 to 2014 thanks to its three most recent acquisitions: Bolthouse, and Plum Organics and baked snacks producer Kelsen Group, which Campbell's acquired in 2013.

The company's earning per share from continuing operations have also been on the rise since 2011, but the numbers have been in the range of \$2.19 to \$2.35 in the past few years.

"Earnings per share is a metric we look at quite a bit," said analyst Jack Russo at Edward Jones. "Given that they've stayed [at that range], they haven't grown. That's despite them cutting costs dramatically. It shows they've had primarily growing sales. The soup category's been down and, given that's half of their business, they're going to struggle as a result of that."

But Campbell's is focusing less on its core business — which it will still invest in and will remain important in its portfolio — and more on C Fresh, which accounts for more than \$1 billion of its annual sales, or about 11 percent of total company sales.

"It's such a small piece of the company," WeiserMazars' Biscotti said. "It's a big mountain to climb, for it to get to 70 percent of sales. They have a long way to go and billions of dollars of new product sales."

The company, however, has made strides in capital expenditures, or investments within the company. It's capital expenditures rose from \$315 million in 2010 to \$347 million in 2014, which included investments toward a flexible beverage production line for Bolthouse, according to annual reports.

"The fact that they announced this, and started in that arena, is good," Biscotti said. "They need to really continue to do this at a very fast pace. Unless bold action is taken, there's a chance they could follow the baby boomers into retirement."

Campbell's needs to continue and watch the shift from the core products to the new emerging businesses, he said.

### **Making fresh-eyed investments**

The new restructuring would let Campbell's save some cash to the tune of \$200 million a year, which the company hopes to realize by adopting a zero-based budgeting approach.

The savings would be a result of targeting a combination of headcount savings and non-headcount savings, which include travel, consulting, logistics and marketing services. Experts, however, say it's not enough to just create a savings-oriented environment.

"If they don't take those cost savings and turn it into acquisitions of small, emerging and cool companies, it's not going to matter," Biscotti said. "They'll be wasting it on the effort."

But Campbell's doesn't plan on just sitting on top of that giant wad of cash; the company's strategy is aggressive.

"Unlike some of our industry peers, we are not doing this for the purpose of just slashing cost for its own sake," Anthony DiSilvestro, senior vice president and chief financial officer, said at the Consumer Analyst Group of New York (CAGNY) conference in February. "Our goal is to unlock the potential of our assets by aligning our spending with our critical growth opportunities."

Campbell's followed up its Bolthouse move with its acquisition of Plum Organics for \$249 million in June 2013. Under the reorganization, Plum falls under Campbell's Americas Simple Meals and Beverage segment and is now the No. 1 organic baby food brand in the United States, DiSilvestro said.

This month Campbell's announced it will acquire Garden Fresh Gourmet, a Ferndale, Mich.-based salsa maker, for \$231 million — a deal expected to close in the fourth quarter of fiscal 2015.

"This is another key move in the right direction for Campbell's," said Kevin Ramsier of

Vesticor Advisors. “It looks to be a terrific strategic move on the part of Campbell’s. It further strengthens their need to diversify into healthier alternatives, while also giving them a brand that they can expand by leveraging their global distribution capabilities.” This acquisition is key in Campbell’s goal of reaching a broader range of perimeters in the grocery store.

Dunn said the Garden Fresh Gourmet acquisition would allow C Fresh to expand in the deli section while complementing its existing presence in the produce section with Bolthouse.

“Campbell’s is smart enough to recognize, embrace and leverage the brand loyalty of Garden Fresh to fuel other parts of their business,” Ramsier said. “I would be surprised to see Campbell’s try and change the underlying philosophy of what got Garden Fresh to this point.”

CEO Morrison said Campbell’s looks at prospective brands with the lens of having a relationship with a set of customers.

“The brands have to have an entrepreneurial spirit and the ability to connect with consumers and customers, and be true to the brand experience,” she said.

Morrison, in Campbell’s third-quarter earnings call this year, said the company needs more M&As, but that it’s willing to be patient and wait for opportunities that create shareholder value to present themselves.

### **Campbell’s future**

Experts expect the company to keep chasing after brands that cater to health and well-being.

“It’s much more of the earnings emphasis on fresh prepared,” Bernstein’s Howard said.

“They’re good custodians; they can find an avenue to getting back to sales growth and margin expansion at some point.”

Vesticor Advisors’ Ramsier agreed: “They’re learning quickly. This industry is going through rapid changes. They’ve got to be leaner with an eye on the younger consumer looking for healthier options.”

He said Campbell’s will still exist a long time down the road. That is, if it hasn’t been acquired by, or merged with, another brand.

Kraft and Heinz agreed to merge this year under a deal between Brazilian private investment group 3G Capital and Warren E. Buffett’s Berkshire Hathaway, which would create the third-largest food and beverage company in North America and the fifth-largest in the world. It would operate under the name The Kraft Heinz Co. with a

revenue of about \$28 billion, according to Heinz.

Rumors started swirling around earlier this year that 3G was eyeing Campbell's for its next purchase after receiving \$5 billion from investors. Campbell's stock price rose on the speculation.

Campbell's executives wouldn't comment on the rumors.

"It would be an amazing acquisition for a private equity group or another food company," said Ronald Anderson, chair of the finance department at Fox School of Business at Temple University.

If Campbell's does go ahead and go the Kraft-Heinz route, it would hinge on the Dorrance family, which owns about 40 percent of Campbell's shares.

"It's not impossible, but ... having the family own that much is a big impediment," Howard said. "You can't rule it out completely, but it seems somewhat unlikely."

Experts say its future is in the smaller, niche brands rather than the big guns like Hain Celestial Group, a New York-based natural and organic foods company.

Hain has been making its own acquisitions, including Rudi's Organic Bakery, which it bought for \$61.3 million last year. Rudi's is known for its line of organic and gluten-free bread and similar products. It's the leading producer of certified organic bread in the United States, according to the company.

Hain also acquired rice company Tilda for \$357 million last year, giving Hain access to the Middle East, India and North Africa.

If Hain merged with or acquired Campbell's, it could change the latter's composition as a company, experts said.

"Once you look at Hain Celestial, evaluations are so expensive," Howard said. "It would be transformational, but disruptive to the earnings growth, particularly in the near term."

And not all acquisitions are successes.

"Campbell's has a deep culture and any time you mix company cultures, it's hard to know which ones are going to win and dominate," Anderson said. "Sometimes they just never click."

Morrison, however, said the company isn't focused on that type of business move. "We are very focused on pursuing our strategy, governed by a dual mandate to

strengthen our core business,” Morrison said. “That’s really the play we’re running. That’s the best play for long-term shareholder value.”

Fran Hilario covers hospitality, restaurants and takes on general assignments and breaking news.

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