AMERICAS MERGER REPORT

CHAIN BRIDGE RESEARCH
f/k/a IG RESEARCH

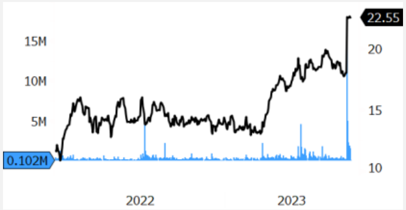
14 August 2023 – 13:00

Sovos Brands (SOVO) / Campbell Soup (CPB)

AGREED MERGER

Deal Terms	
1 SOVO = $23.00	
Target: Sovos Brands	
Country	United States
Bloomberg	SOVO
Sector	Food Services
Share price ($)	22.55
Market cap ($m)	2,282
Free float (%)	~46
Acquirer: Campbell Soup	
Country	United States
Bloomberg	CPB
Sector	Packaged Food
Share price ($)	43.92
Market cap ($m)	13,107
Free float (%)	~66

SOVO Price Chart



Status

HSR filing deadline - August 21, 2023

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The deal spread appears to be tight, given the likelihood of a second request.

Regulatory Risks and Timing

- The key question appears to be if the deal can avoid a lengthy US antitrust review.
- We note that the deal has an outside date of February 7, 2025, which appears somewhat conservative.
- The relevant geographic market is likely to be the US.
- The two companies overlap: in the frozen entrees market, the RTS soup market, and the pasta and pizza sauce market.
- The key issue to be addressed in relation to the product market is whether the product market definition in the pasta and pizza sauce market applied by the FTC is narrow enough to avoid antitrust issues.
- SOVO LTM revenue equals $941m. We assume a SOVO revenue mix similar to last quarter: Rao’s 71% Noosa 22% 7% for Michael Angelo’s. We note that Rao’s and Michael Angelo’s both serve Frozen entrees (see the difference between by Brand and by Product sales split). The frozen entrée and the RTS soup market shares are unlikely to trigger antitrust scrutiny.
- Assuming a pasta&pizza total addressable market of $3bn, we estimate a 20% market share for SOVO. ($941m*65%)
- Prego is one of the leading pasta sauce brands in the US market. It has a market share of around 30%, making it a dominant player in the industry. In 2022, the brand generated a revenue of $600m. The brand has a strong and loyal customer base.
- Campbell’s states that in the ultra-distinctive Italian sauce category segment, it does not currently compete. However the question is if US regulators consider the ultra-distinctive sauce category as a separate product market.
- As per Numerator, the buyers of Rao’s sauce and Prego's are usually different individuals.

CBR summary

- According to our findings, from an antitrust perspective, the key question is how the product market for pasta sauces will be defined.
- It appears that some key mitigating factors help reduce the antitrust risk of the deal.
- **If a narrower (premium vs mainstream sauce) product market definition is applied antitrust issues are unlikely to arise. The low cross-purchase buyer overlap of SOVO and CPB sauces supports this scenario.**
- The price difference between the Rao and Prego sauces is almost threefold (in favor of Rao). We note that even if one, wider product market is defined, the substantial price difference makes it unlikely that, with any price changes, the combined company is able to gain market share or pursue anticompetitive behavior.
- In an earlier EC review (Interbrew/Brauergilde 2002), the EC stated: It appears that different aspects such as the price (e.g. 20% above the other beer prices), the geographic scope of distribution (e.g. nationwide), the marketing expenses or just the "image" attributed to a certain brand could be decisive when sub-segmenting in the drinks sector.
- According to NielsenIQ data, CPB and Sovos' combined pasta sauce dollar market share would equal 35% post-merger. HHI Delta would be 600+. As per DOJ horizontal merger guidelines: “Mergers resulting in moderately concentrated markets that involve an increase in the HHI of more than 100 points potentially raise significant competitive concerns and often warrant scrutiny.” **Thus in case of a wide product market definition, the combined market share might be a basis for deeper scrutiny.**
- We note that such setup could potentially derail the deal as the main rationale would be hurt and suitable remedies could not be offered to tackle antitrust issues.

Timing

- CPB’s Snyder’s-Lance transaction took 3.5 months to close, where the two merging parties had some overlaps.
- As for SOVO/CPB, an HSR second request appears to be straightforward.
- We note the unusually long end date of February 7, 2025

Shareholder Vote and Counterbid

- As of August 7, 2023, the Voting Agreements cover approximately 34% of the shares of outstanding Company Stock. As of August 7, 2023, the Voting Parties collectively owned about 46% of the shares of outstanding Company Stock.
- We see the premium offered and the SOVO takeout valuation attractive enough to gain shareholders’ support. Counterbidders may emerge from the packaged food industry, such as Kellogg, TSN, PPC, or Conagra but precedent deals’ valuation and premiums do not support such an outcome.

Key terms of the merger

Transaction Details

Announcement Date	August 7, 2023
Offer terms	1 SOVO = $23.00
% owned by SOVO stockholders	0%
Deal Size (Market Value)	$2.3bn
Offer structure	All cash merger
Target's Board Recommendation	Yes
Voting Agreement	Yes - In connection with the Merger Agreement, (i) certain funds associated with Advent International Corporation (such funds collectively, "Advent") that are stockholders of the Company and (ii) each member of the Company Board who holds Company Stock (together, the "Voting Parties") have entered into a voting agreement with Parent (each, a "Voting Agreement") and agreed, among other things, to vote the shares of Company Stock over which they have voting power to approve the Merger Agreement and the transactions contemplated thereby, including the Merger. Under the terms of each Voting Agreement, the relevant Voting Party has also agreed (a) to vote such Voting Party's shares of Company Stock against any alternative acquisition proposal and (b) not to transfer its shares of Company Stock (subject to certain exceptions). In addition, Advent's Voting Agreement contains a "no-shop" restriction that, among other things, prohibits Advent and its representatives from soliciting alternative acquisition proposals (subject to certain exceptions). As of August 7, 2023, the Voting Agreements cover approximately 34% of the shares of outstanding Company Stock. As of August 7, 2023, the Voting Parties collectively owned approximately 46% of the shares of outstanding Company Stock.
Target Incorporation	Delaware (US)
Merger Agreement	Click here for the merger agreement
Merger Presentation	Click here for the merger presentation
Merger Call Transcript	Click here for the merger call transcript
Synergies	■ We expect annual run rate cost synergies of approximately $50 million, which we anticipate achieving over the next two years. Roughly two-thirds of these synergies are expected to come from targeted selling, general, and administrative expense reductions through harmonizing the combined corporate organizations. And one-third realized from our supply chain through greater scale in sourcing and procurement and efficiency gains and cost savings at our operations network.

Indicated Closing Date

- "We expect the transaction to close by the end of December 2023, pending Sovos Brands stockholder approval and customary closing conditions, including regulatory approvals."

Dividends

- SOVO shall not pay dividends

Financing

- Campbell plans to finance the acquisition price through the issuance of new debt. Projected leverage is expected to be approximately 4x7 at closing. Given Campbell's expectation of continued strong cash flow from operations, the company remains committed to maintaining its capital allocation priorities that include continued investment in key growth and productivity initiatives in the business, maintaining a competitive dividend, a focus on reaching our target leverage ratio of approximately 3x by the end of the third year, and continuing anti-dilutive share repurchases.

SOVO capitalization

- **SOVO Equity**
  - The authorized capital stock of the Company consists of (i) 10,000,000 shares of preferred stock, $0.001 par value per share, and (ii) 500,000,000 Shares. As of June 29, 2023, there were (A) no shares of preferred stock and (B) 101,318,245 Shares outstanding.
- **SOVO Debt**

	July 1, 2023		
(In thousands)	Principal	Unamortized debt issuance costs	Total debt, net
Initial First Lien Term Loan Facility	$ 480,800	$ (4,872)	$ 475,928
Finance lease liabilities	6,976		6,976
Total debt	$ 487,776	$ (4,872)	482,904
Less: current portion of finance lease liabilities			80
Total long-term debt			$ 482,824

- **SOVO Net Leverage**
  - FY1 Net debt / EBITDA 2.3x

Valuation Multiples

■ **1-day premium**	~28%
■ **LTM EV/Sales**	3.0x
■ **FY1 EV/Sales**	2.8x
■ **FY2 EV/Sales**	2.6x
■ **LTM P/E**	34.3x
■ **FY1 P/E**	37.5x
■ **FY2 P/E**	30.8x

FY1 EV/EBITDA	18.6x
FY2 EV/EBITDA	17.1x

Timetable

Confidentiality Agreement	June 22, 2023
Date of the Merger Agreement (T)	August 7, 2023
Deal Announcement	August 7, 2023
HSR filing deadline	August 21, 2023
Proxy filing deadline (T+45 D)	September 21, 2023
Expiration of HSR waiting period (+30D)	September 20, 2023
SOVO shareholder meeting	By early December 2023
Settlement (CBR est.)	By mid-2024
Outside date	February 7, 2025

Deal close definition

- Subject to the provisions of Article 9, the closing of the Merger (the "Closing") shall take place via the electronic exchange of documents and signature pages at 10:00 a.m., New York City time, as soon as possible, but in any event no later than two Business Days after the date the conditions set forth in Article 9

Solicitation Clause

- There is a non solicitation clause with a fiduciary out prior to the shareholder vote.
- There is a four business day matching period
- Definition of Superior Proposal. For purposes of this Agreement, "Superior Proposal" means any bona fide, written Acquisition Proposal (that is not made as a result of breach of this Section 6.03) after the date of this Agreement for at least a majority of the outstanding Shares or all or substantially all of the consolidated assets of the Company and its Subsidiaries on terms that, after taking into account all the terms and conditions of the Acquisition Proposal (including any break-up fees, expense reimbursement provisions and conditions to consummation), the Board of Directors (or any duly authorized committee thereof), determines, in good faith (after consultation with its outside legal counsel and financial advisors) are more favorable from a financial point of view to the Company's stockholders than the terms provided hereunder (taking into account: (i) any proposal by Parent to amend the terms of this Agreement pursuant to Section 6.03(d), and (ii) all financial, legal, regulatory and other aspects of such Acquisition Proposal, including the timing and likelihood of consummation thereof).

Company Intervening Event

- Subject to compliance with Section 6.03(d), the Board of Directors (or any duly authorized committee thereof) may make an Adverse Recommendation Change (A) following receipt by the Company of an Acquisition Proposal that the Board of Directors (or any duly authorized committee thereof) determines in good faith, after consultation with its legal counsel and financial advisors, constitutes a Superior Proposal (provided that such Superior Proposal did not result from a breach by the Company or the Board of Directors of Section 6.03) or (B) in response to events, changes or developments in circumstances that are material to the Company and its Subsidiaries, taken as a whole, that were not known to or reasonably foreseeable by the Board of Directors as of or prior to the date hereof (or if known, the consequences of which were not known or reasonably foreseeable) and that become known to the Board of Directors after the date hereof (an "Intervening Event"); provided that in no event shall the receipt, existence or terms of any Acquisition Proposal or any inquiry, offer, request or proposal that would reasonably be expected to lead to an Acquisition Proposal constitute or contribute to an Intervening Event;

Key conditions to the merger

Shareholder approvals	at least a majority of the outstanding Shares entitled to vote
No injunctions	Yes
No legal prohibition	Yes
Regulatory Approvals	Yes
Reps and warranties	Yes
Covenants fulfilled	Yes
No Company or Parent MAC	Yes
Closing Certificate	Yes

MAC Definitions

- "Parent Material Adverse Effect" means a material adverse effect on Parent's or Merger Sub's ability to consummate the transactions contemplated by this Agreement, including to make all payments of the Merger Consideration in accordance with Section 2.02 in full.
- "Company Material Adverse Effect" means a material adverse effect on the condition (financial or otherwise), business, assets, or results of operations of the Company and its Subsidiaries, taken as a whole,

Company/SOVO MAC Carve-outs

excluding any event, change, circumstance, effect, occurrence, condition, state of facts or development to the extent arising or resulting from or relating to

- (i) changes, developments or conditions after the date hereof in financial or securities markets in the United States or in any other location throughout the world relevant to the operation of the Company and its Subsidiaries or in the general economic or political conditions in the United States or in any other location throughout the world relevant to the operation of the Company and its Subsidiaries, or in the industry in which the Company and its Subsidiaries operate,

- (ii) any adoption, implementation, enforcement, promulgation, repeal, amendment, interpretation, reinterpretation or other changes, or proposed adoption, implementation, enforcement, promulgation, repeal, amendment, interpretation, reinterpretation or other changes in Applicable Law or GAAP after the date hereof,
- (iii) acts of war (whether or not declared), the commencement, continuation or escalation of a war, acts of armed hostility, sabotage or terrorism or any material worsening of such conditions threatened or existing as of the date of this Agreement or natural disasters, calamities or force majeure events,
- (iv) any epidemic or pandemic (including the COVID-19 pandemic),
- (v) the execution, public announcement or pendency of this Agreement or the transactions contemplated hereby or the consummation of such transactions (including the identity of Parent or any of its Affiliates as the acquiror of the Company), or communication by Parent or any Affiliate of Parent with respect to the post-Closing conduct of the business or deployment or disposition of any of the assets of the Company or any of its Subsidiaries (it being understood that this clause (v) shall not apply to a breach of any representation or warranty contained in Sections 4.04, 4.16(b)(iv) or 4.19(e) related to the announcement or consummation of the transactions contemplated hereby or the failure to satisfy the condition in Section 9.02(b) as a result of any breach of any such representation or warranty),
- (vi) any failure of the Company or any of its Subsidiaries to meet, with respect to any period or periods, any internal projections, forecasts, estimates of earnings or revenues or business plans (but not the underlying facts or basis for such failure to meet projections, forecasts, estimates of earnings or revenues or business plans, which, unless otherwise excepted pursuant to clauses (i)-(v) or (vii)-(ix) of this definition, may be taken into account in determining whether there has been or would reasonably be expected to be a Company Material Adverse Effect),
- (vii) any decline in the market price or trading volume of the Company's common stock (but not the underlying facts or basis for such decline, which, unless otherwise excepted pursuant to clauses (i)-(vi) or (viii)-(ix) of this definition, may be taken into account in determining whether there has been or would reasonably be expected to be a Company Material Adverse Effect),
- (viii) any actions taken by the Company or any of its Subsidiaries as required by this Agreement or
- (ix) any action explicitly required under this Agreement or any action taken or omitted to be taken at the written request of Parent; provided, however, that if any event, change, circumstance, effect, occurrence, condition, state of facts or development described in any of clauses (i) through (iii) has a disproportionate effect on the Company and its Subsidiaries, taken as a whole, relative to the other participants in the industry in which the Company and its Subsidiaries operate, such disproportionate effect shall be taken into account in determining whether there has been, or would reasonably be expected to be, a Company Material Adverse Effect.

Break fees

- **Break fee**: $71,337,435
- **Reverse break fee**: $145,000,000

Antitrust related clauses

- **Jurisdictions**: US
- **Divestiture obligation**:
  - Yes limited by Burdensome Condition
  - Nothing in this Section 8.01 or anything else in this Agreement shall require Parent or any of its Subsidiaries to (and neither the Company nor any of its Subsidiaries shall, or shall offer or agree to, do any of the following without Parent's prior written consent): (i) propose, negotiate, commit to or effect, by consent decree, hold separate orders or otherwise, the sale, divesture, disposition or license of any assets, properties, products, rights, services or businesses of Parent, the Company or any of their respective Affiliates, or any interest therein, or agree to any other structural or conduct remedy; or (ii) otherwise take or commit to take any actions that would limit Parent's, the Company's or any of their respective Affiliates' freedom of action with respect to, or its or their ability to retain any assets, properties, products, rights, services or businesses, or any interest therein (any of the actions described in the preceding clauses (i) and (ii), a "Burdensome Condition")
- **Litigation obligation**: Yes
- **Reverse break fee (regulatory)**: Yes $145,000,000

Specific Performance

Yes

Governing Law

State of Delaware

Key SOVO shareholders

Shareholders	%
Advent International Corp	44.2
Wellington Management Group LLP	6.1
Capital Group Cos Inc/The	5.3
Vanguard Group Inc/The	3.7
BlackRock Inc	3.5
Graves Robert L	3.3
FMR LLC	3.1
Champlain Investment Partners LLC	3.0
Lachman Todd R	2.5
Schroders PLC	2.1
Others	**23.4**

Source: Bloomberg

Company descriptions & rationale for the merger

SOVO DESCRIPTION

- Sovos Brands is a growth-oriented consumer-packaged food company with a portfolio of brands aimed at bringing today's consumers great tasting food that fits the way they live.
- Current brands, Rao's, Michael Angelo's and noosa, are built with authenticity at their core, providing consumers food experiences that are genuine, delicious and unforgettable. Products are premium and made with simple, high-quality ingredients.
- The business model centers around premium, taste-led, high-quality brands and leveraging a common infrastructure and shared playbook to drive growth. SOVO brands share multiple attributes, including: being delicious, possessing a leading consumer affinity, acting as potential category disruptors in large categories and utilizing brand strength to extend into new categories. SOVO brands generally over-index with young and family-oriented consumers who have higher disposable incomes. The consumers are passionate about taste and high-quality ingredients according to Company-sponsored third-party studies and have higher basket sizes at retail compared to the category averages. Brands share a common playbook for growth, which is focused on increasing household penetration by:
  - Increasing distribution;
  - Expanding brand awareness;
  - Improving sales and marketing execution; and
  - Innovating into new categories.
- SOVO portfolio is diversified across brands and categories, with exposure to all meal occasions, especially breakfast and dinner where it believes consumers have the highest propensity to purchase food for their homes.

Brands and Products

- The portfolio currently consists of three brands: Rao's, Michael Angelo's and noosa. SOVO previously owned the Birch Benders brand, which was sold at the end of fiscal 2022. The brands offer premium, on-trend and high-quality products in a variety of product categories and appeal to consumers for consumption in a broad range of occasions, including breakfast, lunch, snacks and dinner. SOVO completed the acquisitions of Bottom Line Food Processors, Inc. d/b/a Michael Angelo's Gourmet Foods and Rao's Specialty Foods ("Rao's" or "RSF") in January 2017 and July 2017, respectively, and single sales and supply chain organization supported the rapid functional integration of the Michael Angelo's and Rao's brands. SOVO completed the acquisition of 100% of the outstanding capital stock of Noosa Holdings, Inc. (the "Noosa Acquisition") in November 2018, and in October 2020, SOVO completed the acquisition of the Birch Benders business (the "Birch Benders Acquisition"). Rao's net sales have grown at a five year compounded annual growth rate of 52% since 2017. With noosa, SOVO leveraged synergies to gain greater scale, and noosa net sales have grown at a three year compounded annual growth rate of 5% since 2019.

Rao's

- The iconic Rao's brand was established as a consumer-packaged food brand in 1991 with a storied New York City heritage. The Rao's brand offers a selection of Rao's Homemade pasta sauces (including tomato-based sauces, Alfredo sauces and Pesto sauces), pizza sauces and dry pastas; Rao's Homestyle meat-based pasta sauces; and Rao's Made for Home frozen entrées, frozen pizza and soups. Rao's sauces are simmered slowly and made in small batches with only high-quality ingredients, like pure olive oil and hand-selected, naturally ripened tomatoes from southern Italy. SOVO sauces have no tomato blends, no paste, no water, no fillers and no added sugar. Rao's was the fastest-growing center store brand of scale from 2018 through 2020. The household penetration of Rao's sauce products has increased from 1.3% in the 52 weeks ended January 3, 2016 to 11.9% in the 52 weeks ended December 25, 2022.

Michael Angelo's

- Michael Angelo's was founded in 1983 with original Italian recipes that had been passed down for generations. Michael Angelo's frozen products include a variety of signature dishes, such as eggplant parmesan, lasagna made with fresh Ricotta cheese, shrimp scampi and other pastas, for a homemade taste. SOVO believes that its Michael Angelo's brand is a leading producer of premium frozen entrées inspired by Italian traditions. The household penetration of Michael Angelo's frozen dinners was 4.7% in the 52 weeks ended December 25, 2022. In fiscal 2023, Michael Angelo's launched into the pasta sauce category.

noosa

- An Australian expatriate co-founded Noosa Yoghurt in 2008 with a fourth-generation Colorado dairy farmer. In 2010, Noosa Yoghurt began selling yogurt at Colorado farmers markets and local Whole Foods stores. SOVO noosa brand offers a suite of delicious yogurt products, including spoonable yogurts and drinkable smoothies. noosa products are creamy and delicious and made with high-quality ingredients, such as whole milk from cows never treated with the growth hormone rBGH, real fruit and wildflower honey. The household penetration of noosa yogurts was 7.5% in the 52 weeks ended December 25, 2022. In fiscal 2022, noosa launched into the ice cream category with noosa frozen yogurt gelato.

Customers

- SOVO sells products to customers primarily in the United States and principally to retail outlets and wholesale distributors, including traditional supermarkets, mass merchants, warehouse clubs, wholesalers, specialty food distributors, military commissaries and non-food outlets, such as drug store chains, dollar stores and e-commerce retailers. In fiscal 2022, approximately 1% of gross sales were to international customers.

- In fiscal 2022, the largest customers, Costco Wholesale Corporation ("Costco"), Walmart Inc. ("Walmart") and United Natural Foods, Inc. ("UNFI"), accounted for approximately 17%, 13% and 10%, respectively, of gross sales, and top five largest customers together accounted for approximately 53% of gross sales.

Competition

- The packaged food industry is highly competitive. SOVO competes with large multi-brand consumer packaged food companies, smaller product-focused companies, emerging companies and dairy products- and dairy alternative-focused companies. Numerous brands and products, including private label products and insurgent brands, compete for shelf space and sales, with competition based primarily on product quality and taste, convenience, price, trade promotion, brand recognition and loyalty, customer service, effective consumer advertising and promotional activities and the ability to identify and satisfy emerging consumer preferences.
- Competing large, multi-brand consumer packaged food companies include **B&G Foods, Inc., Barilla Holding S.p.A., Campbell Soup Company, Conagra Brands, Inc., General Mills, Inc., The Hain Celestial Group, Inc., the J.M. Smucker Company, the Kellogg Company, The Kraft Heinz Company, Mizkan Holdings, Nestle S.A. and PepsiCo, Inc**. These competitors are large, multinational corporations with substantial financial, marketing, research and development and other resources. Smaller product-focused companies that SOVO competes with include **Amy's Kitchen, G.L. Mezzetta, Inc. and Newman's Own, Inc**. Smaller and more product-focused competitors may be more innovative and able to bring new products to market faster and more quickly exploit and serve niche markets or new or burgeoning consumer preferences, and smaller insurgent brands may develop a customer base and consumer loyalty quickly. In addition, SOVO competes against companies focused on dairy and dairy-alternative products, such as **Chobani, LLC, Danone S.A., Fage International S.A. and The Lactalis Group**.
- Given limited retailer shelf space, competitors actively support their respective brands with marketing, advertising and promotional spending. In addition, most retailers offer private label products that also compete for retail shelf space and consumer purchases. SOVO believes that consumers are increasingly willing to pay a premium for quality, great-tasting products and that it is well-positioned to compete with a wide range of packaged food brands and other companies.

CPB DESCRIPTION

- CPB is a manufacturer and marketer of high-quality, branded food and beverage products.

Business Divestitures

- CPB completed the sale of Kelsen business on September 23, 2019. On December 23, 2019, CPB completed the sale of Arnott's business and certain other international operations, including the simple meals and shelf-stable beverages businesses in Australia and Asia Pacific (the Arnott's and other international operations). In addition, on October 11, 2019, CPB completed the sale of European chips business.
- In the fourth quarter of 2021, CPB completed the sale of Plum baby food and snacks business. The results of the Plum baby food and snacks business through the date of sale were reflected in continuing operations within the Meals & Beverages reportable segment.

Reportable Segments

- Meals & Beverages, which consists of soup, simple meals and beverages products in retail and foodservice in the U.S. and Canada. The segment includes the following products: Campbell's condensed and ready-to-serve soups; Swanson broth and stocks; Pacific Foods broth, soups and non-dairy beverages; Prego pasta sauces; Pace Mexican sauces; Campbell's gravies, pasta, beans and dinner sauces; Swanson canned poultry; V8 juices and beverages; and Campbell's tomato juice. The segment also includes snacking products in foodservice and Canada. The segment included the results of Plum baby food and snacks business, which was sold on May 3, 2021; and
- Snacks, which consists of Pepperidge Farm cookies*, crackers, fresh bakery and frozen products, including Goldfish crackers*, Snyder's of Hanover pretzels*, Lance sandwich crackers*, Cape Cod potato chips*, Kettle Brand potato chips*, Late July snacks*, Snack Factory pretzel crisps*, Pop Secret popcorn, Emerald nuts, and other snacking products in retail in the U.S. Beginning in 2022, CPB refers to the * brands as "power brands." The segment includes the retail business in Latin America. The segment also included the results of European chips business, which was sold on October 11, 2019.
- Beginning in 2022, the foodservice and Canadian business formerly included in Snacks segment is now managed as part of the Meals & Beverages segment. Segment results have been adjusted retrospectively to reflect this change.

Ingredients and Packaging

- The ingredients and packaging materials required for the manufacture of food and beverage products are purchased from various suppliers, substantially all of which are located in North America. During 2022, CPB experienced significantly elevated commodity and supply chain costs including the costs of labor, raw materials, energy, fuel, packaging materials and other inputs necessary for the production and distribution of products. In addition, many of these items are subject to price fluctuations from a number of factors, including but not limited to climate change, changes in crop size, cattle cycles, herd and flock disease, crop disease, crop pests, product scarcity, demand for raw materials, commodity market speculation, energy costs, currency fluctuations, supplier capacities, government-sponsored agricultural programs and other government policy, import and export requirements (including tariffs), drought and excessive rain, temperature extremes and other adverse weather events, water scarcity, scarcity of suitable agricultural land, scarcity of organic ingredients, pandemic illness (such as the COVID-19 pandemic), armed hostilities (including the ongoing conflict between Russia and Ukraine) and other factors that may be beyond CPB control. To help reduce some of this price volatility, CPB uses a combination of purchase orders, short- and long-term contracts, inventory management practices and various commodity risk management tools for most of the ingredients and packaging. Ingredient inventories are generally at a peak during the late fall and decline during the winter and spring. Since many ingredients of suitable quality are available in sufficient quantities only during certain seasons, CPB makes commitments for the purchase of such ingredients in their respective seasons. Although CPB is unable to predict the impact of CPB ability to source these ingredients and packaging materials in the future, CPB expects these supply pressures to continue throughout 2023. CPB also expects the pressures of input cost inflation to continue into 2023.

Customers

- In most of CPB markets, sales and merchandising activities are conducted through CPB own sales force and/or third-party brokers and distribution partners. CPB products are generally resold to consumers through retail food chains, mass discounters, mass merchandisers, club stores, convenience stores, drug stores, dollar stores, e-commerce and other retail, commercial and non-commercial establishments. CPB Snacks segment has a direct-store-delivery distribution model that uses independent contractor distributors.
- CPB five largest customers accounted for approximately 47% of consolidated net sales from continuing operations in 2022, 46% in 2021 and 44% in 2020. CPB largest customer, Wal-Mart Stores, Inc. and its affiliates, accounted for approximately 22% of consolidated net sales from continuing operations in 2022 and 21% in 2021 and 2020. Both of CPB reportable segments sold products to Wal-Mart Stores, Inc. or its affiliates. No other customer accounted for 10% or more of consolidated net sales.

Competition

- CPB operates in a highly competitive industry and experience competition in all of its categories. This competition arises from numerous competitors of varying sizes across multiple food and beverage categories, and includes producers of private label products, as well as other branded food and beverage manufacturers. Private label products are generally sold at lower prices than branded products. Competitors market and sell their products through traditional retailers and e-commerce. All of these competitors vie for trade merchandising support and consumer dollars. The number of competitors cannot be reliably estimated. CPB principal areas of competition are brand recognition, taste, nutritional value, price, promotion, innovation, shelf space and customer service.

STRATEGIC RATIONALE FOR THE MERGER

Compelling Strategic Rationale

- Multi-dimensional Value Creation
    - Acquisition unlocks significant value through strong and sustainable growth opportunities
    - Expect a fast, effective and efficient integration and synergy unlock given familiarity with categories and Campbell's strong capabilities, processes and proven integration playbook
    - The acquisition is expected to provide considerable earnings growth contribution to the division while unlocking additional value through meaningful cost synergies
    - Campbell's supply chain excellence and scale are expected to drive operating synergies for Sovos Brands, while improving scale efficiency of Campbell's core operations
- Attractive Sustainable Profitable Growth
    - Significant whitespace opportunity for Rao's and Michael Angelo's through increased distribution, growing items per store and household penetration to category peer levels
    - Campbell's expertise in retail execution is expected to enhance shelf productivity, geographic footprint, and sub-category penetration
    - Sovos Brands' expertise in innovation, category expansion and the marketing of high-growth brands is expected to enhance and strengthen Campbell's capabilities as the portfolio continues to transform
- Accelerates Campbell's Focused, Strategic Plan
    - Further advances the company's focused one geography, two division roadmap – Meals & Beverages and Snacks
    - Solidifies role of Meals & Beverages as a sustainable and dependable contributor to the enterprise, by complementing a stable, core portfolio in mainstream product categories with a fast-growing differentiated, premium segment
    - Delivers Campbell's $1 billion sauces strategic objective by filling in critical white space in the growing ultra-distinctive Italian sauce category, a segment where Campbell's does not currently compete.
    - Extends Campbell's presence into the fast growing, on-trend, premium frozen meals segment with Rao's and Michael Angelo's, while adding meaningful scale to the existing Pepperidge Farm's frozen portfolio

Key risks

REGULATORY RISKS AND TIMING

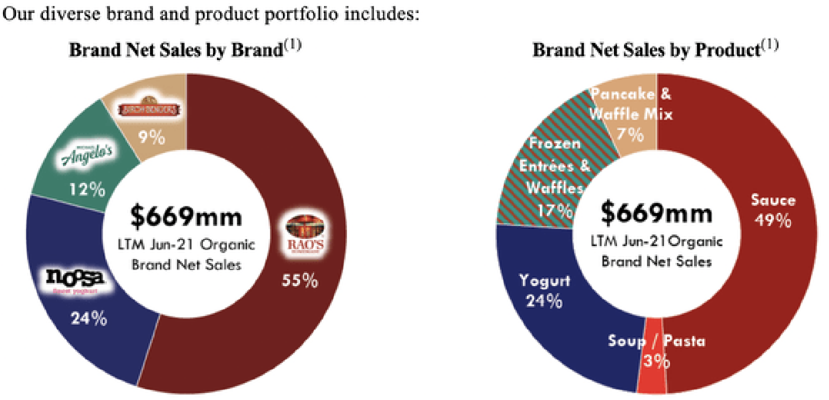
- The key question appears to be if the deal can avoid a lengthy US antitrust review.
- We note that the deal has an outside date of February 7, 2025, which appears somewhat conservative.

Relevant geographic market

- The relevant geographic market is likely to be the US.

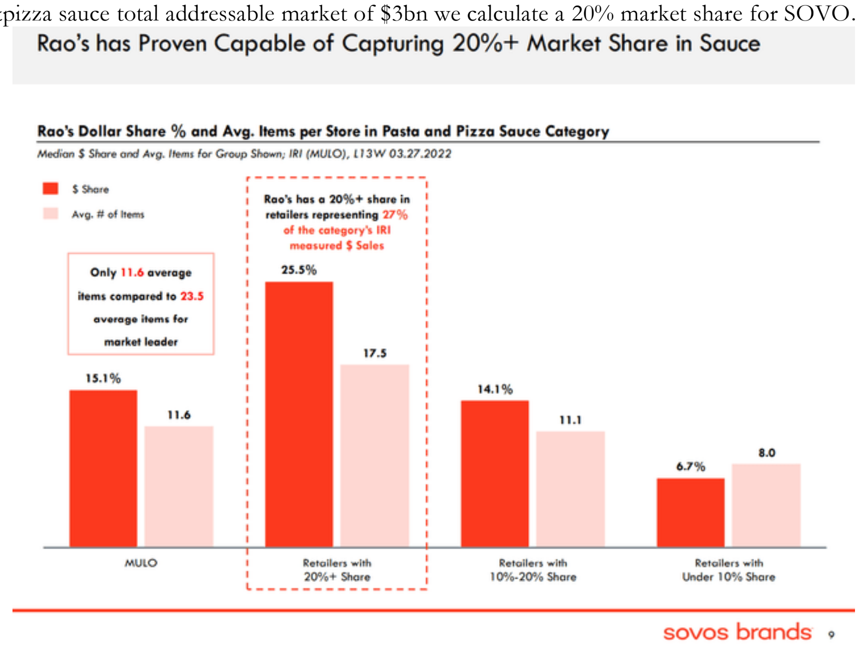
Relevant product market

- The two companies overlap:
  - in the frozen entrees market
  - in the RTS soup market
  - in the pasta and pizza sauce market
- The key issue to be addressed in relation to the product market is whether the product market definition in the pasta and pizza sauce market applied by the FTC is narrow enough to avoid antitrust issues.
- SOVO LTM revenue equals $941m. We assume a SOVO revenue mix similar to last quarter: Rao's 71% Noosa 22% 7% for Michael Angelo's. We note that Rao's and Michael Angelo's both serve Frozen entrees (see the difference between by Brand and by Product sales split).

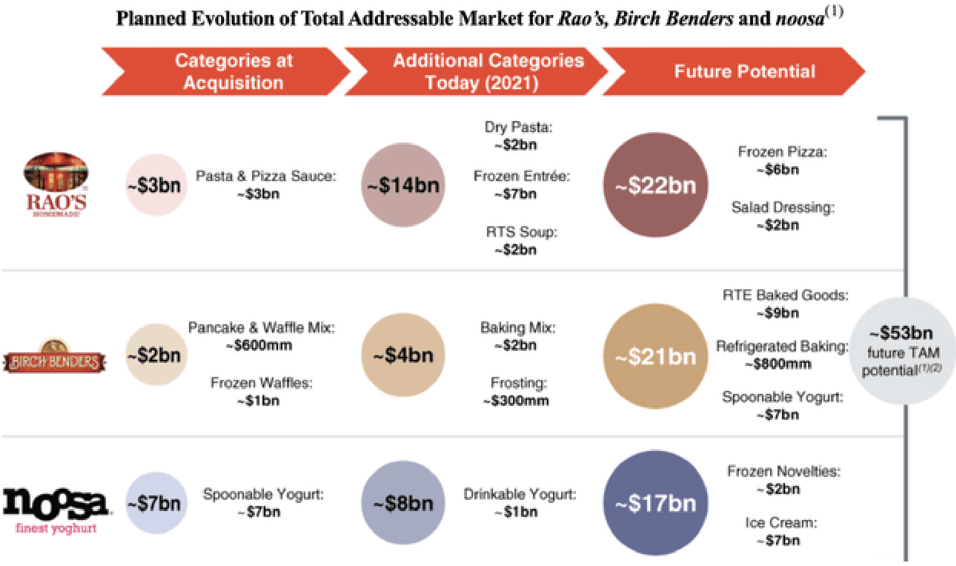


*At the end of fiscal 2022, SOVO completed the divestiture of the Birch Benders brand and certain related assets.

- Assuming a frozen entrée total addressable market of $7bn we calculate a 2.3% market share for SOVO. ($941m*17%)
- Assuming a RTS soup total addressable market of $2bn we calculate a 1.4% market share for SOVO. ($941m*3%)
- The additional frozen entrée and the RTS soup market shares are unlikely to trigger antitrust scrutiny.
- Assuming a pasta&pizza sauce total addressable market of $3bn we calculate a 20% market share for SOVO. ($941m*65%)



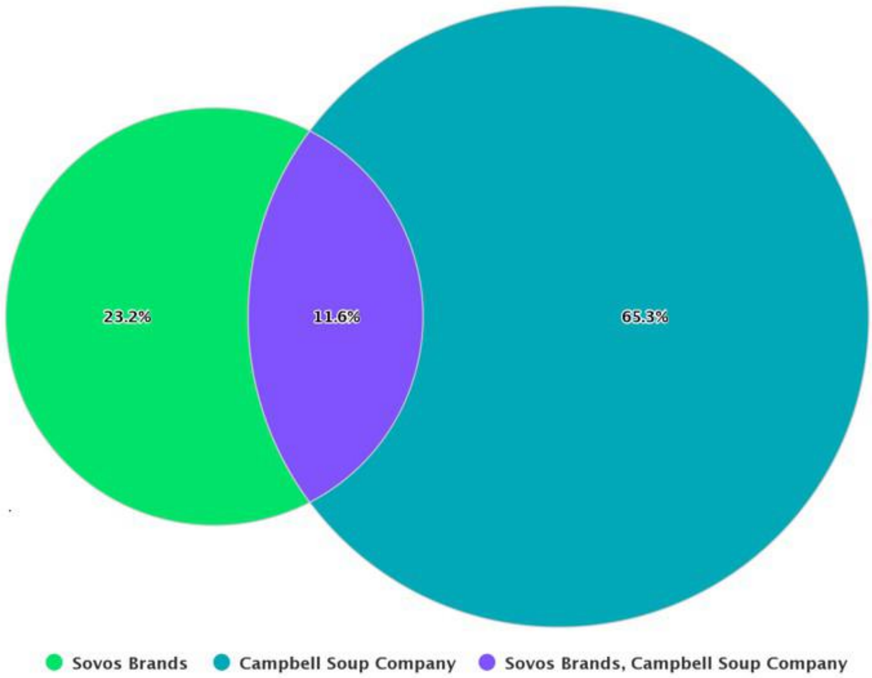
Source: 1Q 2022 Investor Presentation (Sovos Brands)



*At the end of fiscal 2022, SOVO completed the divestiture of the Birch Benders brand and certain related assets.

- Prego is one of the leading pasta sauce brands in the US market. It has a market share of around 30%, making it a dominant player in the industry. In 2022, the brand generated a revenue of $600m. The brand has a strong and loyal customer base.
- Campbell's states that in the ultra-distinctive Italian sauce category segment, it does not currently compete. However, the question is if US regulators consider the ultra-distinctive sauce category as a separate product market.
  - As per Numerator, the buyers of Rao's sauce and Prego's are usually different individuals.

Cross-purchase buyer overlap in pasta sauce, per Numerator



Source: Numerator.com

CBR summary

- According to our findings from an antitrust perspective, the key question is how the product market for pasta sauces will be defined.
- Some key mitigating factors appear to help reduce the deal's antitrust risk.
- If a narrower (premium vs mainstream sauce) product market definition is applied, antitrust issues are unlikely to arise. The low cross-purchase buyer overlap of SOVO and CPB sauces supports this scenario.
- The price difference between the Rao and Prego sauces is almost threefold (in favor of Rao). We note that even if one, wider product market is defined, the substantial price difference makes it unlikely that, with any price changes, the combined company can gain market share or pursue anticompetitive behavior.
- In an earlier EC review ([Interbrew/Brauergilde 2002]), the EC stated it appears that different aspects such as the price (e.g. 20% above the other beer prices), the geographic scope of distribution (e.g. nationwide), the marketing expenses or just the "image" attributed to a certain brand could be decisive when sub-segmenting in the drinks sector.

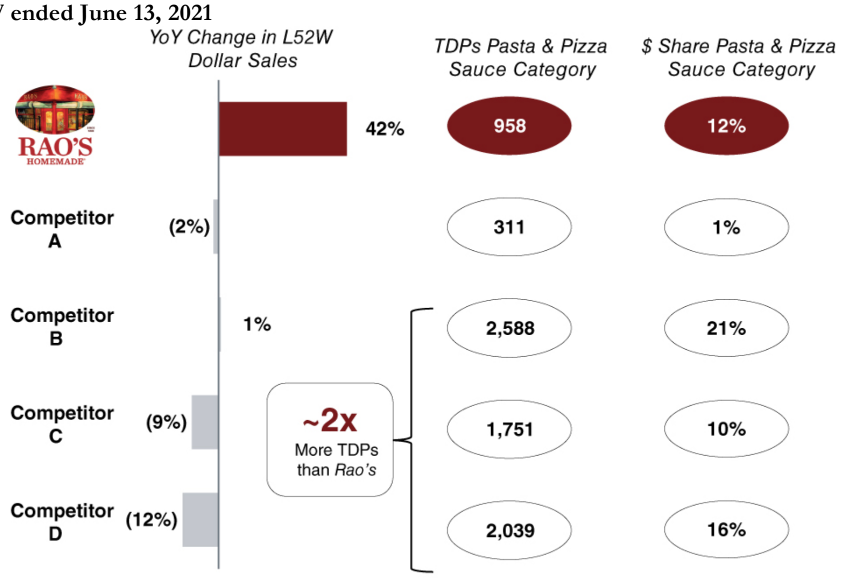
- According to NielsenIQ data, CPB and Sovos combined pasta sauce dollar market share would equal to 35% post merger. HHI Delta would be 600+. A s per the DOJ horizontal merger guideline: “Mergers resulting in moderately concentrated markets that involve an increase in the HHI of more than 100 points potentially raise significant competitive concerns and often warrant scrutiny.” Thus in case of a wide product market definition, the combined market share might be a basis for deeper scrutiny.
    - We note that such a setup could potentially derail the deal as the main rationale would be hurt, and remedies could not be offered to tackle antitrust issues.

HHI calculation

	Pre-merger		Post-merger	
Pasta sauce market players	**Market share**	**HHI**	**Market share**	**HHI**
CPB	19%	361	35%	1225
Sovos	16%	256	-	-
Private label	11%	121	11%	121
KHC	9%	81	9%	81
Mizkan	22%	484	22%	484
All Others (assuming 10 players)	23%	53	23%	53
Total	100%	1356	100%	1964
Delta				**608**

Data Source: NielsenIQ

Rao’s market share 52W ended June 13, 2021



IPO filing https://www.sec.gov/Archives/edgar/data/1856608/000110465921116980/tm2112574-17_s1a.htm

Timing:

- CPB’s Snyder’s-Lance transaction took 3.5 months to close where the two merging parties had some overlaps.
- As for the SOVO/CPB the key question is the product market definition for pizza and pasta sauces an HSR second request appears to be straightforward.
- We note the unusually long end date of February 7, **2025**

SHAREHOLDER VOTE

- As of August 7, 2023, the Voting Agreements cover approximately 34% of the shares of outstanding Company Stock. As of August 7, 2023, the Voting Parties collectively owned approximately 46% of the shares of outstanding Company Stock.
- We see the premium offered and the SOVO takeout valuation as attractive enough to gain shareholders’ support.

COUNTERBID

- Our ROIC calculation and precedents’ valuation shows limited room for a counterbid thus we consider it as a wild card scenario.
- However, the recent confidentiality agreement might signal that SOVO was not shopped.
- Earlier Kellogg (K) was mentioned as a potential bidder for CPB targets (DMND owned by LNCE).
- TSN vs PPC had a battle for Hillshire Brands in 2014.
- Conagra already acquired and successfully integrated Pinnacle Foods in the packed food industry ‘s different subsegment in 2018 and would not face high antitrust hurdles.
    - The Pinnacle deal brought greater scale in categories that could yield greater growth than the broader food industry.

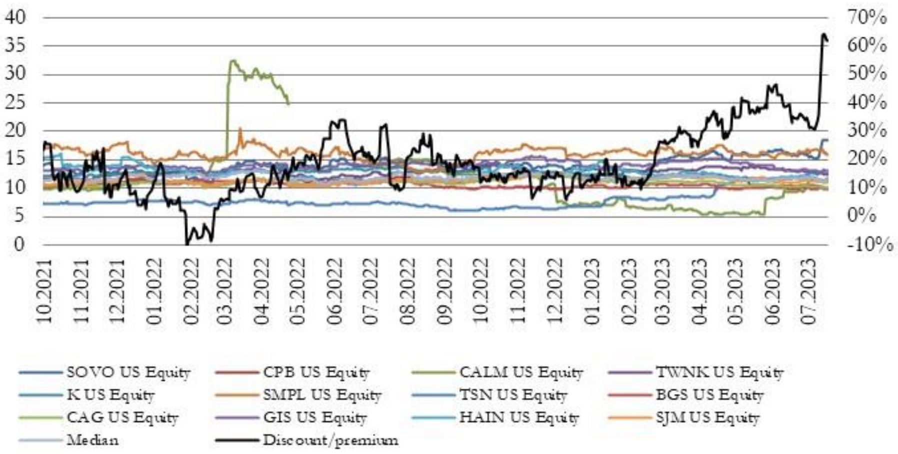
Valuation

STANDALONE VALUE

- SOVO has been trading at a 10%-30% premium compared to peers' median FY1 EV/EBITDA multiple thanks to its best-in-class growth rate among peers.
- The current offer values SOVO ~30% above peers' average multiple. In a deal break, we see SOVO trading around the top of the premium range. A 14.8x-15.4x FY1 EBITDA multiple range implies a $17.7-$18.5 standalone value for SOVO.

Company	Price	Mkt Cap (mn)	FY1 EV/ EBITDA	FY2 EV/ EBITDA	EBITDA CAGR	FY1 EBITDA Margin	FY1 PE	FY2 PE	EPS CAGR
SOVOS BRANDS INC	22.62	2 292	18.3x	16.5x	16.3%	15.0%	37.0x	30.1x	15.5%
CAMPBELL SOUP CO	44.01	13 119	10.2x	9.9x	4.2%	18.6%	14.7x	14.2x	4.8%
CAL-MAINE FOODS	46.66	2 286	11.7x	10.0x	-46.3%	7.2%	24.5x	30.2x	0.3%
HOSTESS BRANDS	23.11	3 070	12.5x	11.6x	7.5%	22.4%	20.7x	18.9x	10.9%
KELLOGG CO	63.59	21 770	11.4x	11.2x	4.7%	15.9%	15.3x	14.8x	2.7%
SIMPLY GOOD FOOD	36.48	3 632	16.1x	14.7x	7.6%	19.6%	22.6x	20.0x	10.8%
TYSON FOODS-A	53.75	19 111	13.1x	9.1x	-12.6%	4.0%	41.4x	17.0x	-20.1%
B&G FOODS INC	12.67	916	9.9x	9.6x	4.8%	15.2%	12.1x	10.9x	9.3%
CONAGRA BRANDS I	31.06	14 843	10.1x	9.9x	2.7%	19.4%	11.4x	10.9x	2.9%
GENERAL MILLS IN	72.38	42 356	12.8x	12.4x	4.2%	20.4%	16.0x	15.2x	6.4%
HAIN CELESTIAL	11.67	1 044	12.0x	10.7x	-3.5%	9.1%	23.0x	18.7x	-13.9%
JM SMUCKER CO	147.32	15 034	11.1x	10.8x	2.8%	21.5%	15.6x	14.7x	7.0%
Average			**11.9x**	**10.9x**	**-2.2%**	**15.8%**	**19.8x**	**16.9x**	**1.9%**

Peers EV/FY1 EBITDA and discount/premium vs median



Source: Bloomberg, CBR

PRECEDENTS

- The all-cash offer for Sovos Brands of $23 per share for a total enterprise value of approximately $2.7 billion represents an adjusted EBITDA multiple of 14.6x, including run rate synergies and 19.8x excluding synergies. The takeout multiple of FY1 EV/EBITDA is 18.6x for SOVO. Only BUFF was taken out at a higher multiple among precedents.
- SAFM was taken out at an 11.5x LTM and cca 7.5x 2021 EBITDA multiple in 2021
- GIS paid 24x FY1 EV/EBITDA for BUFF in 2018.
- CPB bought Snyder's-Lance Inc at 20.70x FY1 EV/EBITDA in 2017
- Hershey took over Amplify Snack Brands 17.9x FY1 EV/EBITDA in 2017
- Post Holdings bought Bob Evans Farms at 15.7x FY1 EV/EBITDA in 2017
- Amazon privatized Whole Foods Market at 10.25x FY1 EV/EBITDA in 2017

ROIC

- By our ROIC calculation, further upside might be limited unless higher cost synergies are achievable.
- We assumed:
  - 20% effective tax rate
  - $50m synergies

ROIC calculations

Deal value ($m)	2023	2024	2025
Bid price (/sh.)	*23.00*	*23.00*	*23.00*
O/S (m)	*101*	*101*	*101*
Market value (m)	**2330**	**2330**	**2330**
Net Debt (m)	329	329	329
Deal value (m)	**2659**	**2659**	**2659**
ROIC calculation			
BEST Operating Profit (m)	**122**	**136**	**155**
Synergies	*50*	*50*	*50*
Adj. Operating Profit (m)	**172**	**186**	**205**
Tax (20%)	*34*	*37*	*41*
NOPAT (m)	**137**	**148**	**164**
ROIC	**5.2%**	**5.6%**	**6.2%**

Sensitivity tables

Price vs Operating profit

		Bid price ($/share)				
		23.0	24.0	25.0	26.0	27.0
2025 Op. Profit ($m)	121	5.1%	5.0%	4.8%	4.6%	4.5%
	131	5.4%	5.2%	5.1%	4.9%	4.7%
	155	6.2%	5.9%	5.7%	5.5%	5.4%
	160	6.3%	6.1%	5.9%	5.7%	5.5%
	170	6.6%	6.4%	6.1%	5.9%	5.7%

Price vs Synergies

		Bid price ($/share)				
		23.0	24.0	25.0	26.0	27.0
Ann. Cost Syn. ($m)	0	4.7%	4.5%	4.3%	4.2%	4.0%
	25	5.4%	5.2%	5.0%	4.9%	4.7%
	50	6.2%	5.9%	5.7%	5.5%	5.4%
	60	6.5%	6.2%	6.0%	5.8%	5.6%
	70	6.8%	6.5%	6.3%	6.1%	5.9%

Price vs Tax rate

		Bid price ($/share)				
		23.0	24.0	25.0	26.0	27.0
Tax rate	10%	6.9%	6.7%	6.4%	6.2%	6.0%
	15%	6.6%	6.3%	6.1%	5.9%	5.7%
	20%	6.2%	5.9%	5.7%	5.5%	5.4%
	25%	5.8%	5.6%	5.4%	5.2%	5.0%
	30%	5.4%	5.2%	5.0%	4.8%	4.7%

Synergies vs Tax rate

		Annual cost savings ($m)				
		0	25	50	60	70
Tax rate	10%	5.2%	6.1%	6.9%	7.3%	7.6%
	15%	5.0%	5.8%	6.6%	6.9%	7.2%
	20%	4.7%	5.4%	6.2%	6.5%	6.8%
	25%	4.4%	5.1%	5.8%	6.1%	6.3%
	30%	4.1%	4.7%	5.4%	5.7%	5.9%

Source: CBR and Bloomberg

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