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JULY 20, 2000

INVESTMENT HIGHLIGHTS

CAMPBELL SOUP (CPB- $28)
Rating 2
Former 2

ROE (F2000E)	**360.0%**	**Dividend**	**$0.90**
Tot. Debt/Cap	**77%**	**Yield**	**3.2%**
Shares Out	**423 mil.**	**52-Wk Range**	**47-25**
Proj. 5-yr. EPS Growth	**10%-11%**	**Book Value**	**$0.39**
12-Month Target Price	**$35-$36**	**Fiscal Year**	**July**

		F2000E		**F2001E**	
	F1999	**OLD**	**NEW**	**OLD**	**NEW**
1Q	$0.58	$0.54A	-	$0.51	$0.46
2Q	$0.49	$0.65A	-	$0.59	$0.54
3Q	$0.37	$0.32A	-	$0.35	nc
4Q	$0.28	$0.17	$0.14	$0.35	nc
Year	**$1.72**	**$1.68**	**$1.65**	**$1.80**	**$1.70**
P/E	**-**		**17.0x**		**16.5x**

HEADLINE: Earnings recovery will take time. Maintaining buy rating.

INVESTMENT SUMMARY:

Campbell Soup, with annual sales of $6.3 billion, is one of America's leading food companies. Its strong brand names include Campbell's, Franco-American, V8, Pace, Prego, Swanson, Pepperidge Farm and Godiva in the U.S., as well as Erasco, Liebig, Arnott's and Homepride overseas. Its profit margins and return on assets are among the highest in the food industry, and its earnings growth over the past decade has exceeded that of most of its peers. Recent earnings weakness in our view is a result of temporary competitive and marketing issues, and we expect a gradual recovery over the course of F2001, leading to record-high EPS in the $2.00 range in F2002. Our positive "2" rating reflects our expectation that the depressed shares should recover in response to improved results, and also the possibility that CPB could become a takeover candidate as food industry consolidation continues.

KEY POINTS:

- Campbell's shares are down 28% since December 31, the worst performance among the major food stocks, and currently sell near their five-year low. This reflects the unexpected resignation of President and CEO Dale Morrison in March, and the subsequent revelation that volume and profits were running below expectations. The company's F3Q (April) earnings release, issued on May 17th, indicated declines of 7% in sales and 14% in EPS, attributable primarily to an 8% drop in U.S. soup shipments, as a result of a 5% decline in category volume as well as a loss of market share to Progresso. At an analyst meeting that day, management outlined a series of steps being taken to reverse the trend, including new products and marketing initiatives and an increase in advertising and promotional expenditures. Management also predicted that earnings would remain under pressure in F4Q (July), and in the early part of F2001.

- In a recent discussion with the management, we learned that soup volume thus far in F4Q remains below a year ago, but the rate of decline has been less than management had feared. Category volume at the retail level is estimated to be down about 2% for the period (versus 5% in F3Q), and Campbell's volume is down 4%-5% (versus 9%). As in the previous period, Progresso has continued to promote heavily, perhaps reflecting in part a desire to achieve strong numbers in order to boost the takeover value of its parent company, Diageo's Pillsbury subsidiary. Despite an improved trend in consumer takeaway, CPB's shipments to the trade in F4Q are expected

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to be down 10% or more (versus 8% in F3Q), as a result of inventory building by retailers a year ago in anticipation of a price increase.

- F4Q trends in CPB's other businesses are mixed. Among its canned products, spaghetti sauce is strong, and Mexican sauces are up slightly, but canned pasta and gravies are down. V8 Splash shows a double-digit volume decline, against a difficult prior-year comparison. At Pepperidge Farm, weakness in cookies at the moment is offsetting strength in crackers. The major international operations are performing well. However, as usual, results in the soup area are the key determinant, and the lower shipments could result in a 50% decline in EPS for this seasonally low quarter, greater than our previous estimate of a 40% drop.

- In anticipation of the upcoming fall and winter soup season, Campbell began shipping its new products on July 1. These include the introduction of several of its most popular condensed soups in ready-to-serve (RTS) form for the first time; new easy-open lids for all of its RTS soups; and a major new condensed variety, Campbell's Tomato Noodle. Management states that the trade reception of all of its new items has been enthusiastic. In addition, advertising will begin earlier than usual, and total marketing expenditures in the year ahead are likely to be 4%-5% higher than in F2000.

- Difficult volume comparisons, coupled with high marketing costs, are expected to lead to year-to-year earnings declines in F1Q and F2Q, as management has emphasized all along. We look for a resumption of positive comparisons in F2H, leading to a modest EPS gain for F2001 as a whole, although we have reduced our estimate from $1.80 (up 7%) to $1.70 (up 3%) to be conservative.

- We are confident that the inherent strengths of the Campbell's brand with retailers and consumers, the product and marketing initiatives now being implemented, and a return to more normal promotional activity by its principal competitor will lead to a resumption of sales and earnings growth for the soup division and for CPB as a whole in the coming year. Based on a recovery in sales and a restoration of normal profit margins, we project record earnings in the area of $2.00 per share by F2002.

- The company is conducting a search for a new CEO to replace interim CEO David Johnson, and hopes to announce a decision by the end of calendar 2000. In addition to candidates from outside the company, Marty Thrasher, President of Campbell North America, and Basil Anderson, Chief Financial Officer, could be contenders for the top job. Alternatively, in view of the consolidation that is under way in the food industry, the company's depressed earnings and stock price, and likely pressures from the controlling Dorrance family, CPB might choose to merge with another company rather than remain independent. It is known that the company had serious discussions with Bestfoods before the latter's decision to accept an offer from Unilever. We believe there are other food companies not yet involved in the current consolidation process that would be willing to pay a sizable premium to the present market price to own Campbell's brands and benefit from the potential synergies of a merger.

- Campbell Soup has been mentioned as a possible candidate to acquire Keebler, which has just been put up for sale by its controlling shareholder, Flowers Industries. In theory, KBL would be a logical buy for CPB, in view of its success with Pepperidge Farm in the U.S. and Arnott's in Australia, and its stated interest in further expansion in the biscuit field. However, such a transaction seems impractical to us, given KBL's likely takeover valuation of $5 billion or more, the resulting nearly three-fold increase in CPB's debt, the dilution of its already depressed earnings, and the risk that its stock price, which is down 50% from last year's peak, would fall further on the news. We believe Campbell is more likely to merge upstream into a larger company than to make a multi-billion dollar acquisition of its own.

INVESTMENT CONCLUSION:

Campbell Soup is rated "2" (Buy), with a 12-month target price range of $35-$36 as a going concern, and a much higher potential value in the event of a buyout.