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Campbell's Acquisition of Sovos Brands

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> "There was something unusual about Campbell Soup's recent [$2.9 billion] acquisition of a food company best known for one brand: Rao's. Never has anyone paid so much for tomato sauce."[1]

Rao's History

The storied history of Rao's (pronounced RAY-ohs) Homemade pasta sauce (**Exhibit 1**) dates back to 1896 when Charles Rao, an immigrant from southern Italy, purchased a small tavern in New York City.[2] Over the years, led by a number of Charles' descendants, the tavern evolved into a well-established restaurant known for its Italian-American dishes. Rao's emphasis on simple, high-quality ingredients helped build its notoriety. In 1977, restaurant critic for *The New York Times* Mimi Sheraton awarded Rao's three stars for its "wonderfully simple, honest and completely delicious Italian food."[3]

In 1992, Frank Pellegrino Sr., a third-generation member of the Rao family and then head of the business, decided to package and sell Rao's pasta sauce. Given the restaurant's limited capacity and inability to serve the growing number of customers interested in its food, Pellegrino viewed a packaged sauce made according to the restaurant's signature recipe as the next best alternative. The product earned something of a cult following due to its simple ingredients and restaurant-quality taste, laying the foundation for Rao's emergence as a premium brand in the pasta sauce category. Unlike many competing sauces, Rao's contained no added sugar, tomato paste, water, starches, fillers, or artificial colors.

[1] Ben Cohen, "This Tomato Sauce Is Delicious. It's Also Worth Billions of Dollars," *The Wall Street Journal*, August 17, 2023.

[2] "About Rao's," https://www.raos.com/pages/about (accessed May 2026).

[3] Sam Roberts, "Frank Pellegrino Sr., 72, Is Dead; Proudly Rebuffed Would-Be Diners at Rao's," *The New York Times,* February 1, 2017.

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In 2017, Rao's Homemade was acquired by Sovos Brands, marking a new chapter in the brand's growth story. Rao's was Sovos's second major brand acquisition, following Michael Angelo's frozen entrees. The company later expanded its portfolio through the acquisition of Noosa yogurt.

As Sovos President and CEO Todd Lachman explained, the company sought to "identify undervalued brands with high-quality products and low market share" and increase both "mental awareness" and "physical availability."[4] This meant investing in marketing to build brand visibility while expanding distribution to make products easier to purchase. The underlying premise was that once consumers discovered these brands, many would become repeat customers.

The results at Rao's were dramatic. By 2023, Yuri Hermida, Sovos' Chief Growth Officer, noted that "Rao's is more than nine times bigger than when we acquired it in 2017," adding that the growth had been driven primarily by increased sales volume rather than price increases.[5]

Acquisition by Campbell's

In August 2023, Campbell Soup Company announced an agreement to acquire Sovos Brands for $23 per share in cash. The acquisition represented a strategic effort by Campbell to strengthen its position in faster-growing, premium food categories. Announcing the deal, Campbell President and CEO Mark Clouse stated that he was "thrilled to add the most compelling growth story in the food industry." **Exhibit 2** presents selected food products industry acquisitions announced during this period.

Sovos investors reacted favorably to the proposed transaction, sending the company's stock price to $22.56 on the day of the announcement, just below the offer price and 25% above the prior day's closing price (**Exhibit 3**). In contrast, Campbell's stock price was largely unchanged.[6]

In general, analysts viewed the acquisition favorably from a strategic perspective.

> In our view, this deal makes strategic sense. That is, SOVO is a stand-out growth business (+28% organic net sales CAGR from 2019-2022) and offers a portfolio that strengthens and diversifies CPB's Meals & Beverage segment. Most notably, Rao's (~69% of SOVO's sales) has been a category disruptor in sauce, gaining 10+ pts of share since 2019 and growing retail sales at a +39% CAGR from 2019-2022, and will complement CPB's sauce business as it plays in the ultra-premium Italian sauce category.[7]

[4] Ben Cohen, "This Tomato Sauce Is Delicious. It's Also Worth Billions of Dollars," *The Wall Street Journal*, August 17, 2023.

[5] Dave Knox, "How Sovos Brands Grew Rao's 9X In Six Years," *Forbes,* July 5, 2023.

[6] Center for Research in Security Prices (Ticker: CBP).

[7] Max Gumport, "Campbell to Acquire Sovos Brands," BNP Paribas, August 7, 2023.

> Sovos is among the faster growing packaged food companies, with organic sales growing 28% from 2019-2022, 20.4% in 2022, and 21.7% in 1H23, driven by the success of the Rao's sauce brand (69% of the business). Rao's is positioned as a premium brand within the pasta sauce category with 17% market share and is complimentary to CPB's Prego sauces (20% market share).[8]

> The crown jewel is Rao's, ~2/3 of SOVO sales, most well-known for its pasta sauces. The acquisition propels CPB's sauce business over the $1bn threshold and gives it a faster growing asset for Meals & Beverages, which has experienced pressured volumes of late.[9]

> The announcement of the complementary Sovos Brands acquisition helps CPB expand its premium offerings in the pasta sauce & frozen category and is a strategic fit for the portfolio despite elevated leverage.[10]

Although the strategic logic of the transaction was generally viewed as sound, analysts were less certain about the price that Campbell had agreed to pay.

> The 19.8x EV/EBITDA multiple is towards the high end of historical food transaction multiples and is 18.8x consensus 2023E EV/EBITDA, but underscores the scarcity of growth in the sector. Overall, we view the acquisition as a strategic benefit to CPB's topline growth prospects, but view the price as providing very modest financial returns.[11]

> Though we wouldn't call a price tag of nearly 20x trailing EBITDA cheap, we also don't think it's egregiously high given (a) Sovos' recent growth and future growth potential, and (b) the strategic and financial fit of Sovos within Campbell Soup.[12]

> The [$2.9bn] transaction is a lofty 19.8x LTM EV/EBITDA multiple (14.6x including $50mn synergies over 2-yrs) but comparable to other growth assets (Snyder's-Lance, late '17).[13]

> We believe the price paid to be "full" but understand the premium given the growth and margin profile.[14]

[8] Pamela Kaufman, Stefan Diaz, and Chris Garcia, "Adding Some Flavor: CPB to Acquire Sovos Brands," Morgan Stanley, August 7, 2023.

[9] Rob Dickerson, Scott Marks, Whitney Mutalemwa, and Natasha Baker, "Getting Saucey," Jefferies, August 8, 2023.

[10] Brian Callen and Divya Kumaresan, "Hitting the sauce," BofA Securities, August 10, 2023.

[11] Pamela Kaufman, Stefan Diaz, and Chris Garcia, "Adding Some Flavor: CPB to Acquire Sovos Brands," Morgan Stanley, August 7, 2023.

[12] Ken Goldman and Thomas Palmer, "6 Initial Thoughts on the Sovos Acquisition," J.P.Morgan, August 8, 2023.

[13] Brian Callen and Divya Kumaresan, "Hitting the sauce," BofA Securities, August 10, 2023.

[14] Nick Modi, Chris Peters, and Clark Lee, "Quick Thoughts on Sovos Brands Acquisition," RBC Capial Markets, August 8, 2023.

Acquisition Accounting

In a full-company acquisition, the buyer acquires all of the target company's assets and assumes all of its liabilities. Under U.S. GAAP, acquired tangible assets (e.g., accounts receivable or property, plant, and equipment) and assumed liabilities (e.g., accounts payable or deferred revenue) are recognized at fair value as of the acquisition date. Acquired intangible assets that can be distinguished from the business as a whole are also recognized at fair value as of the acquisition date. Finite-lived intangible assets (e.g., customer relationships) are amortized over their estimated useful lives. In contrast, indefinite-lived intangible assets expected to generate cash flows indefinitely (e.g., trademarks) are not amortized but are tested annually for impairment. If an indefinite-lived intangible asset is determined to be impaired, the acquirer records an impairment charge on the income statement and reduces the carrying value of the asset on the balance sheet.

In many acquisitions, the purchase price exceeds the fair value of the target's net identifiable assets (assets minus liabilities). When this occurs, the excess is recorded as an intangible asset known as goodwill. Like separately identifiable indefinite-lived intangible assets, goodwill is not amortized and is tested annually for impairment. If goodwill is determined to be impaired, the acquirer records an impairment charge on the income statement and reduces the carrying value of goodwill on the balance sheet.

Exhibit 4 presents Sovos' balance sheet for the last fiscal quarter prior to the acquisition. **Exhibit 5** presents Campbell's purchase price allocation for the transaction. Of the $2.899 billion purchase price, nearly all was allocated to intangible assets, including $1.785 billion of identifiable intangible assets and $1.110 billion of goodwill. The fair value of tangible assets acquired and liabilities assumed largely offset one another, resulting in a minimal contribution to the purchase price allocation. Although not broken out in the purchase price allocation, Campbell disclosed elsewhere in the same filing that it had assigned a value of $1.470 billion to the Rao's trademark.

Exhibit 1   Rao's Homemade Marinara Sauce

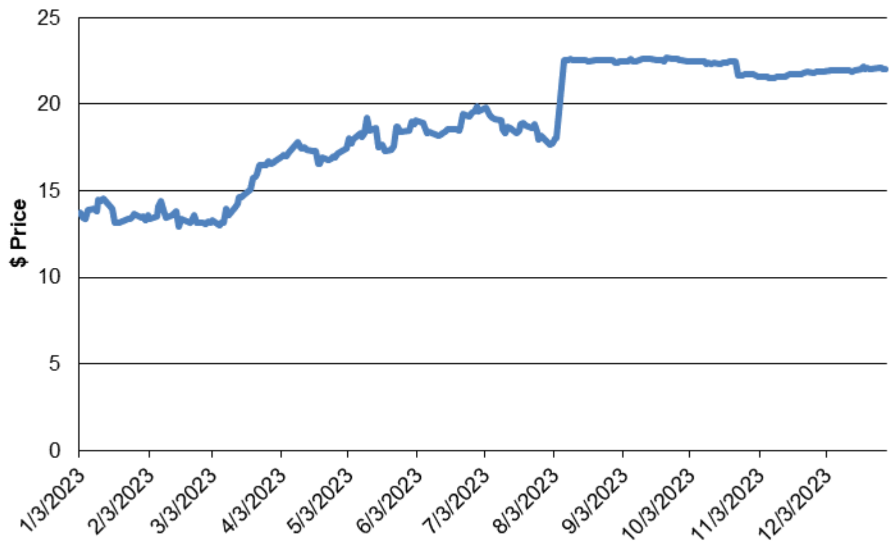
Source: https://www.raos.com/products/marinara-sauce (accessed May 2026).

Exhibit 2 Selected Acquisitions in Food Products Industry

Target	Primary Product Category	Acquirer	Deal Date	Deal Value ($ Millions)	Deal Value / LTM EBITDA
Clif Bar	energy bars	Mondelez	Aug. '22	2,900	25.0
Dot's Pretzels	salty snacks	Hershey	Dec. '21	894	15.2
FONA International	flavorings	McCormick	Dec. '20	708	23.6
Cholula	hot sauce	McCormick	Nov. '20	803	25.0
Quest Nutrition	protein bars	Simply Good Foods	Nov. '19	1,000	12.4
Snyder's Lance	salty snacks	Campbell	Mar. '18	6,100	19.9
Amplify Snack Brands	salty snacks	Hershey	Jan. '18	1,600	11.4

Note: LTM is last twelve months.
Sources: Company press releases, Pitchbook, and Ken Goldman and Thomas Palmer, "6 Initial Thoughts on the Sovos Acquisition," J.P.Morgan, August 8, 2023.

Exhibit 3 Sovos Brands Stock Price between January 3, 2023 and December 29, 2023



Source: Center for Research in Security Prices (Ticker: SOVO).

Exhibit 4 Sovos Brands, Inc. Balance Sheets ($ Thousands)

	December 30, 2023	December 31, 2022
CURRENT ASSETS:		
Cash and cash equivalents	231,988	138,654
Accounts receivable, net	97,655	87,695
Inventories, net	95,515	92,602
Prepaid expenses and other current assets	7,843	11,974
Total current assets	433,001	330,925
Property and equipment, net	64,699	64,317
Operating lease right-of-use assets	11,447	13,332
Goodwill	395,399	395,399
Intangible assets, net	329,122	351,547
Other long-term assets	1,313	3,279
TOTAL ASSETS	1,234,981	1,158,799
CURRENT LIABILITIES:		
Accounts payable	64,486	49,264
Accrued expenses	81,356	69,571
Current portion of long-term debt	184	99
Current portion of long-term operating lease liabilities	3,275	3,308
Total current liabilities	149,301	122,242
Long-term debt, net of debt issuance costs	483,800	482,344
Deferred income taxes	60,157	63,644
Long-term operating lease liabilities	11,388	14,063
Other long-term liabilities	346	483
TOTAL LIABILITIES	704,992	682,776
STOCKHOLDERS' EQUITY:		
Common stock, $0.001 par value per share	101	101
Additional paid-in-capital	602,123	577,664
Accumulated deficit	(73,117)	(103,291)
Accumulated other comprehensive income	882	1,549
TOTAL STOCKHOLDERS' EQUITY	529,989	476,023
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	1,234,981	1,158,799

Source: Sovos Brands, Inc. 10-K, December 30, 2023.

Exhibit 5 Campbell's Sovos Brands Purchase Price Allocation ($ Millions)

On August 7, 2023, we entered into a merger agreement to acquire Sovos Brands, Inc. (Sovos Brands) for $23.00 per share. On March 12, 2024, we completed the acquisition. Sovos Brands' portfolio includes a variety of pasta sauces, dry pasta, soups, frozen entrées, frozen pizza and yogurts, all of which are sold in North America under the brand names *Rao's, Michael Angelo's* and *noosa*. Total purchase consideration was $2.899 billion, which was determined as follows:

Cash consideration paid to Sovos Brands shareholders	2,307
Cash paid for share-based awards	32
Cash consideration paid directly to shareholders	2,339
Cash paid for transaction costs of Sovos Brands	32
Repayment of Sovos Brands existing indebtedness and accrued interest	486
Total cash consideration	2,857
Fair value of replacement share-based awards	42
Total consideration	2,899

The table below presents the fair value that was allocated to acquired assets and assumed liabilities:

Cash	240
Accounts receivable	96
Inventories	130
Other current assets	5
Plant assets	102
Goodwill	1,110
Other intangible assets	1,785
Other assets	16
Total assets acquired	3,484
Accounts payable	96
Accrued liabilities	56
Accrued income taxes	1
Long-term debt	9
Deferred taxes	412
Other liabilities	11
Total liabilities assumed	585
Total consideration	2,899

Source: Campbell Soup Company 10-Q, April 28, 2024.