

Seeking Alpha^α

Transcripts | Consumer

Campbell Soup Company (CPB) CEO Mark Clouse on Q4 2019 Results - Earnings Call Transcript

Aug. 30, 2019 2:18 PM ET

by: SA Transcripts

FQ4: 08-30-19 Earnings Summary



Press Release



10-K



Slides

EPS of \$0.42 beats by \$0.01 | Revenue of \$1.78B (-19.78% Y/Y) misses by \$-199.72M

Earning Call Audio



Subscribers Only

0:00:00

-1:05:00

Campbell Soup Company (NYSE:CPB) Q4 2019 Results Conference Call August 30, 2019 8:30 AM ET

Company Participants

Ken Gosnell - VP, Finance Strategy and IR

Mark Clouse - President and CEO

Anthony DiSilvestro - CFO

Conference Call Participants

Andrew Lazar - Barclays

Ken Goldman - JP Morgan

Bryan Spillane - Bank of America

Jason English - Goldman Sachs

Chris Growe - Stifel

Robert Moskow - Credit Suisse

Operator

Good day, ladies and gentlemen, and welcome to Campbell's Fourth Quarter and Full Year Fiscal 2019 Earnings Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will be given at that time. [Operator Instructions] And as a reminder, today's conference call is being recorded.

I would now like to turn the conference call over to Ken Gosnell, Vice President, Finance Strategy and Investor Relations. Please go ahead.

Ken Gosnell

Thank you. Good morning, everyone. Welcome to Campbell's fourth quarter and full year fiscal 2019 earnings call. As usual, we've created slides to accompany our earnings presentation. You will find these slides posted on our website this morning at investor.campbellsoupcompany.com. This call is open to the media who'll participate in a listen-only mode.

Turning to slide two. Today, we will make forward-looking statements, which reflect our current expectations. These statements rely on assumptions and estimates, which could be inaccurate and are subject to risk. Please refer to slide two or our SEC filings for a list of factors that could cause our actual results to vary materially from those anticipated in forward-looking statements.

Because we use non-GAAP measures, we have provided a reconciliation of these measures to the most directly comparable GAAP measure, which is included in the appendix of this presentation.

Additionally, concurrently with the filing of our 10-K in few weeks, we plan to file an 8-K which will recast historical quarterly and full year unaudited financial information, reflecting the discontinued operations as well as certain non-GAAP financial measures reconciled to the GAAP presentation.

On slide three, you can see the agenda we will cover today. With us on the call today are Mark Clouse, Campbell's President and CEO; and Anthony DiSilvestro, Chief Financial Officer. Mark will share his thoughts on our performance in the quarter, our progress in fiscal 2019 against our strategic initiatives and provide his perspective on our outlook for fiscal '20. Then, Anthony will walk through the financial details, as well as our guidance for fiscal 2020.

With that, let me turn the call over to Mark.

Mark Clouse

Thanks, Ken. Good morning, everyone, and thanks for joining us today.

This morning, I will make high level comments about our combined results for ease of comparison to our most recently provided sales and earnings guidance. Anthony will bridge the various components of our results, including both continuing and discontinued operations, given the sale of Campbell Fresh and the pending divestitures of the Campbell International businesses.

I'm pleased to say that in the fourth quarter, we continued to do what we said we would. This quarter showed meaningful improvement in our performance sequentially and versus a year ago, across many measures. Additionally, Q4 completes a fiscal year where we've made material progress on our strategic plan across the business.

First and foremost, it starts with our performance. We are delivering results that are aligned with or exceeding our expectations, which is a critical first step in our journey to sustainable, profitable growth. We have demonstrated improved operating discipline, and this marks the fourth consecutive quarter this year that we have met or exceeded our own financial goals. It also marks the first quarter we delivered topline, gross margin and EPS growth in the year. Definitely a great way to finish.

Second, we are well on our way to completing the divestitures of the noncore businesses we identified last year. Shutting the underperforming fresh businesses that added complexity to the portfolio and working toward closing on the two transactions related to Campbell International, both of which are expected to close in the first half of fiscal '20.

This will do two critical things: it will improve our balance sheet and better focus the business. In total, we expect net proceeds of approximately \$3 billion from these transactions, which will be used to significantly reduce our debt.

Finally, we've also developed a new straightforward strategy, which brings clear focus on one geography and two core businesses. It's a simple yet powerful concept that enables us to concentrate our resources and investment on the things that matter most. This includes returning resources and innovation to our iconic meals and beverage brands, like our Campbell Soup business and accelerating support on our unique and differentiated snacking portfolio, including the Pepperidge Farm and Snyder's-Lance brands.

We have accomplished a great deal this year, and I'm very satisfied with our progress. We have clearly stabilized the Company from where we were a year ago and delivered improved performance over the course of the year. By no means are we declaring victory. We have much to do to continue to strengthen our businesses, improve our marketing and innovation, and demonstrate executional excellence consistently. However, the actions we have taken have removed a great deal of unpredictability around our business and created a solid foundation to build upon, going forward.

Now, let's cover Q4 in more detail on slide six. This is the best quarter we have delivered in terms of performance versus prior year and provide some encouragement for the potential of our new focused portfolio, demonstrating what the business is capable of delivering.

Looking at our combined results from the quarter, sales increased 2%. Performance in the quarter reflected continued strength in the Snacks segment where organic sales increased 4% with contributions coming from across the business. In fact, we grew or held share in eight of our top nine snack power brands. Meanwhile, the meals and beverage business continued to stabilize, delivering 1% organic sales growth.

We also made progress on gross margin in the quarter, another important proof point in our turnaround. Adjusted gross margin increased 60 basis points in the quarter, a material improvement versus the third quarter year-to-date, which was down significantly.

We have also continued to successfully deliver our multiyear enterprise cost savings program. This quarter, we achieved \$45 million in savings, including the Snyder's-Lance synergies. For the year, that brings our total savings to \$165 million from continuing operations. We have achieved \$560 million in savings program-to-date and continue to track to our cumulative savings target of \$850 million by the end of fiscal '22.

Cash flow from operations was \$1.4 billion, reflecting major improvements in working capital as we continue to demonstrate increased discipline and effectiveness and optimizing our working capital.

Turning to a discussion of our segments on slide eight. Let's start with Meals & Beverages, which continued to stabilize. Results improved this quarter with organic sales up 1% behind the performance of soup, Prego and Pace. Declines in operating earnings moderated as we continued to drive base enablers and benefited from our selective pricing actions, which were more than offset by cost inflation.

While we are encouraged by the performance to finish the year, we do not want to get ahead of ourselves. As we told you at Investor Day, there is much work ahead in fiscal '20. We still expect some volatility as we invest in the business and also make important choices to strengthen the portfolio for the future.

In U.S. soup, sales increased 3% with gains in condensed and ready-to-serve soups, which is encouraging. Obviously, the fourth quarter is the smallest of the year. And it's important to keep in mind that we're wrapping significant declines from a year ago. However, it's also great to see in-market consumption increase 1.4% in the quarter with strong performance across the portfolio. This represents a significant improvement over the first three quarters.

Turning to slide nine. Across the board, we made progress with our fiscal '19 soup plans, which called for improving the fundamentals of the business, including improved retail engagement, pricing and promotion and marketing. This is the foundation we'll build upon as we execute the next phase of the plans in fiscal '20 and fiscal '21. As we said, we're taking a full swing at soup with an integrated and holistic plan.

Here's how we're thinking about soup over the next two years. In fiscal '20, on the plus side, we'll be injecting much needed investment in the businesses across quality, marketing and selective merchandising, including returning our highly relevant Pacific brand to growth. We also hope to validate the new vision for the soup aisle that was outlined at Investor Day while continuing to strengthen important retailer relationships.

We do expect some mitigating headwinds as we continue to rationalize the portfolio and increase some unsustainable promoted price points. As we've said previously, we expect a more stable soup business in fiscal '20 with an improved trajectory in fiscal '21 that builds upon the F'20 learnings and increases in investment in areas that are working or redirects as necessary, complemented by a more robust innovation pipeline. This change will not happen overnight. The soup plan is a three-year journey with fiscal '20 being the second phase.

In other parts of the division, I'm pleased with the performance of our sauces business. As we outlined in June, we have work to do on the Prego and Pace brands, but they are responding well to the renewed focus and support. Prego delivered strong in-market performance in the quarter with consumption growth and share gains. In fact, Prego has regained the share lead in the pasta sauce category, adding another number one brand to our roster. Meanwhile, Pace performed well in Q4, fueled by increased merchandising and effective customer programs.

Turning to V8, the shelf-stable beverages category remained under pressure. While there are challenges in this business, its foundation is strong and its plant-based positioning is on trend. V8 is the number one vegetable juice in the U.S. and the number two overall branded shelf-stable juice. We are continuing to work our way through some of the more disadvantaged parts of the portfolio, particularly Splash, which is driving the majority of the decline in the quarter, and reshaping this business around the plant-based consumer macro trend and our single-serve business. That's our biggest opportunity with V8 Original and the differentiated V8 +Energy and hydration lines, all of which tap in to the plant-driven benefits consumers are seeking.

Let's take a look at our Snacks segment on slide 11. This was another very good quarter for the business as we continue to drive strong sales performance with organic sales increasing 4%. I feel very good about the steady progress of the integration of the businesses, building on the complementary strengths of Pepperidge Farm and Snyder's-Lance. This year, we have over-delivered our value capture while simultaneously unlocking the growth potential of this unique and differentiated portfolio by maintaining our momentum in Pepperidge Farm and applying our proven growth model to Snyder's-Lance.

Our performance was balanced across Snacks. As I mentioned earlier, eight of our nine power snack brands grew or maintained share in the quarter. The Snacks business is really hitting its stride on both the top and bottom-line behind increased marketing investments to fuel sales growth, and efficiencies and enablers benefiting operating profit.

I continue to be impressed with the proven growth model of Pepperidge Farm. This marks the 19th consecutive quarter of organic growth of Pepperidge with sales again increasing mid-single-digits behind strong marketplace performance across all the major brands.

Goldfish continued to perform well with increases on the core business. Fresh bakery continued its strong growth trajectory, fueled by the renovation of Swirl and new line extensions on buns and rolls. Farmhouse cookies also had double-digit consumption gains.

Now, let's turn to the Snyder's-Lance side of the portfolio. Marketplace performance was improved this quarter, especially against our power brands. In particular, we're very pleased with the response of Cape Cod and Kettle to increase marketing, which drove consumption and share growth. In addition, the new campaign in Snyder's of Hanover is making a material difference as that business continues to improve.

Now, on slide 13, beyond the power brands that we're investing in for growth, the Snyder's-Lance portfolio also includes what have been historically referred to as partner brands, brands that we distribute but do not own; and allied brands, regional brands that we own but are noncore. Both play a very important role by providing distribution scale and efficiency. We remain committed to this business, but in the quarter, our Snacks results include about a 1 point headwinds from these brands. Within this business, there

are nearly 2,000 SKUs. We're going to better prioritize select partners to reduce complexity and improve execution, while maintaining the vast majority of this business. Looking ahead, we expect a similar headwind in fiscal '20.

Let's dig into the progress of our integration and value capture. I'm more than satisfied with the pace and progress of the integration. In fact, we over-delivered synergies every quarter this year. The over-delivery in the quarter and for the full year is the result of very strong performance in the three areas we've discussed previously: Synergies and procurement, specifically packaging; the consolidation of the sales headquarters and related operations; and driving operational efficiency in manufacturing. In addition, the leadership team continues to do an excellent job in building a winning culture across the combined businesses.

Next, on slide 15, I want to provide which should be one of our final updates on the divestitures we identified last August. In June, we announced the agreement to sell the Kelsen business to an affiliate of Ferrero; and in August, we announced the sale of the rest of Campbell International to KKR. We expect these divestitures to be completed in the first half of fiscal '20. The sale of Campbell International was a long and complex process, but we are confident that the end result generated the greatest value from these assets.

In total, we will receive \$2.5 billion for the Campbell International businesses. When you combine that with the divestiture of the Fresh businesses, we expect total net proceeds of approximately \$3 billion, which will be used to significantly reduce our debt.

In addition to improving the balance sheet, the divestiture of these businesses allow us to focus our resources on our two core North American businesses, which is already having a positive impact on our efficiency and performance.

As we outlined at Investor Day, fiscal '19 was a reset year and fiscal '20 will be a year of stabilization, which will include the investments we need to better support the businesses going forward. This translates to what I would characterize as relatively flat with some areas of modest improvement. This guidance reflects the next step in our journey to sustainable, profitable growth.

As I'm sure you all read in our press release yesterday, we announced that Anthony DiSilvestro will be leaving Campbell. This will be his final call as the Chief Financial Officer of the Campbell Soup Company. He will be succeeded by Mick Beekhuizen who is joining us from Chobani. Start of the new fiscal year and the near completion of the divestiture, provides an opportune time to make this change.

Anthony will stay on board until mid-October to ensure we have smooth and seamless transition to Mick. Anthony has made many important contributions during his more than two decades with Campbell. He's enjoyed a remarkable career and played a significant role in shaping the Company. I want to personally thank him for his partnership over the last several months in getting me up to speed on the business, for his leadership on the divestitures and driving the cost savings program, and for the excellence and execution that has contributed to our improved performance this year. I speak for all of our employees and the Board when I wish Anthony the best as he moves on from Campbell.

With that, let me turn it over to Anthony.

Anthony DiSilvestro

Thanks, Mark.

Before getting into the details, I'll make a few comments on our performance in the quarter. Overall, we had a good quarter with results exceeding our expectations. We are pleased with improving trends and our gross margin performance as we benefited from costs and productivity savings as well as from net price realization.

Our cost savings program continued good progress as we achieved \$45 million in savings in the quarter from continuing operations, bringing the year-to-date total to \$165 million and the program-to-date total to \$560 million.

We are pleased with the progress on our divestiture program, having recently announced agreement to sell the Campbell International businesses. Completing the divestiture program will enable us to focus on our core North America market. And with anticipated proceeds of approximately \$3 billion, we will significantly reduce our debt level.

Lastly, as we announced this morning, we are providing our 2020 guidance for continuing operations. As we discussed at our Investor Day in June, we expect stable performance in 2020 as we make the investments necessary to achieve long-term growth.

I'll now review our detailed results. In my discussion, I'll focus primarily on the results for continuing operations. However, as we did last quarter, we will provide combined results, consistent with the basis of our previous guidance. In this case, we will combine the results of continuing operations and the results of Campbell International.

I'll start with continuing operations. For the fourth quarter, net sales on an as reported basis increased 2% to approximately \$1.8 billion. Organic sales also increased 2% with gains in Snacks, as well as in Meals & Beverages. Adjusted EBIT of \$252 million increased 1% as sales gains and gross margin improvement were partly offset by higher marketing and selling expenses.

Adjusted EPS from continuing operations increased by 14% or \$0.05 to \$0.42 per share, primarily due to a lower adjusted tax rate and a reduction in interest expense, driven by strong cash flow and proceeds from the Campbell Fresh divestiture.

For the full year, net sales from continuing operations on an as supported basis increased 23% to \$8.1 billion, benefiting from acquisitions, while organic net sale were comparable to the prior year, as gains in Snacks were offset by declines in Meals & Beverages.

Adjusted EBIT from continuing operations increased 1% to \$1.266 billion and adjusted EPS of \$2.30 was down 8%, reflecting the incremental interest expense from acquisitions and a lower adjusted tax rate.

And now, on a combined basis and consistent with our previous guidance, net sales for the quarter increased 2% to \$2 billion, adjusted EBIT of \$288 million increased 2% and adjusted EPS, which exceeded our expectations increased by 14% to \$0.50 per share. For the full year, combined net sales increased 18% to \$9.2 billion, reflecting the acquisitions of Snyder's-Lance and Pacific Foods. Adjusted EBIT decreased 1% to \$1.422 billion and adjusted net EPS of \$2.63 declined 9% versus the prior year.

Breaking down our net sales performance from continuing operations for the quarter. Organic net sales were up 2%, driven by a combination of increased volume and the benefit of recent pricing actions. Approximately 70 basis points of the sales growth is a result of lapping the lost sales related to the voluntary recall of Flavor Blasted Goldfish crackers in July 2018. Volume gains were driven by snacks, while pricing gains were achieved across our two segments.

Promotional spending was flat year-over-year, while the impact from currency translation in the quarter was neutral. As we refocus our portfolio on North America, we would expect currency translation impact to be minimal. All-in, our as reported net sales were up 2%.

We are pleased with our gross margin results as we continue to achieve sequential improvements in performance. For continuing operations, our adjusted gross margin percentage increased by 60 basis points to 33.7%. Cost inflation and other factors had a negative impact of 320 basis points.

On a rate basis, input prices increased approximately 4%, reflecting higher prices on steel cans, vegetables, aluminum and wheat. Going the other way, our ongoing supply chain productivity program contributed 140 basis points and our cost savings program added 130 basis points to gross margin expansion.

Net pricing contributed 50 basis points as we benefited from list pricing actions across several key categories and from lapping costs incurred related to the Flavor Blasted Goldfish recall last year. Reflecting strong sales gains in U.S. soup, mix was favorable by 60 basis points, bringing the gross margin percentage to 33.7%.

Moving on to other operating items. Marketing and selling expenses increased 10% in the quarter, primarily reflecting increased marketing investment on Snacks and higher incentive compensations, driven by improved performance, partly offset by benefits from cost savings initiatives. Adjusted administrative expenses increased 5% to \$139 million, due primarily to the increased incentive compensation expense, partly offset by the benefits from cost savings initiatives. For additional perspective on our performance, this chart breaks down our adjusted EPS change between our operating performance and below-the-line items.

Adjusted EPS increased \$0.05 from \$0.37 in the prior year quarter to \$0.42 per share. On a currency neutral basis, adjusted EBIT had no impact on EPS as our increase in sales and gross margin were offset by higher marketing and selling expenses. Net interest expense declined by \$5 million a \$0.01 positive impact to EPS as we have used our strong cash flow to reduce debt.

Adjusted EPS benefited from a lower adjusted effective tax rate, adding \$0.02 to EPS. Our adjusted effective tax rate declined by 4.2 points to 25.6%, benefiting from the reduced U.S. Federal rate. And lastly, currency translation had no impact on EPS this quarter, completing the bridge to \$0.42 per share.

Now, turning to our segment results. In Meals & Beverages, organic sales increased 1%, reflecting sales gains in U.S. soup, Prego, and Pace, partly offset by declines in V8 beverages. Sales of U.S. soup increased 3% versus the prior year, driven by gains in ready-to-serve and condensed soups. Segment operating earnings declined 3% to \$151 million. The decline was driven primarily by cost inflation, and higher incentive compensation expense, partly offset by supply chain productivity gains, the benefits of cost savings initiatives and the benefit of list pricing actions.

Here's a look at U.S. wet soup category performance and our share results as measured by IRI. For the 52-week period ending July 28, 2019, the category declined 1.5%. Our sales in measured channels including Pacific declined 3.7% and our market share declined by 130 basis points. Private label sales grew 5.9% with a market share gain of 120 basis points. All other branded players collectively experienced a sales decline of 80 basis points, gaining 20 basis points of market share.

As shown on the chart, our consumption and share trends are improving. For the 13-week period ending July 28, our sales in measured channels increased 140 basis points with share declining just 90 basis points.

In Campbell Snacks, sales in the quarter increased 3% to \$967 million. Organic sales increased 4%. This performance reflects continued momentum in Pepperidge Farm bakery products, Kettle Brand potato chips, Snack Factory Pretzel Crisps and Late July snacks, as well as gains in Pepperidge Farm Goldfish crackers, as the company laps the negative impact of the voluntary recall in July 2018.

negative impact on the voluntary recall in early 2019.

As Mark mentioned, eight of our nine snack power brands grew or held market share in the quarter. Segment operating earnings increased 2% to \$133 million as sales growth, cost savings and productivity gains were probably offset by cost inflation, increased marketing investment and higher incentive compensation.

Cash from operations for fiscal 2019 increased by \$93 million to about \$1.4 billion, reflecting significant improvements in working capital performance and higher cash earnings.

The cash outlay for capital expenditures was \$384 million, \$23 million lower than the prior year. Dividends paid in the amount of \$423 million were comparable to the prior year, reflecting our current quarterly dividend of \$0.35 per share.

Net debt of \$8.533 billion declined by \$1.135 billion, compared to the prior year as positive cash flow generated by the business, and proceeds from the divestiture of Campbell Fresh were used to reduce debt. We expect to close the divestitures of the Campbell International businesses in the first half of 2020, and we'll use the proceeds to further reduce our debt level.

We are very pleased with the progress we have made on our divestiture program. On Campbell International, we now have agreement to sell our Kelsen business for \$300 million and the balance of Campbell International for \$2.2 billion. As mentioned, we anticipate closing on the international transactions in the first half of fiscal 2020.

Together with the divestiture of our Campbell Fresh division, which was completed in the fourth quarter, we expected divestiture proceeds of approximately \$3 billion. And as discussed, these will be used to significantly reduce our debt level. The results of these businesses are now being reported as discontinued operations.

For fiscal 2020, we are providing guidance for continuing operations, which excludes the results of Campbell International and Campbell Fresh. Fiscal 2020 is a 53-week year, including one additional week, which is included in our guidance and has about a 2 percentage-point impact across net sales, EBIT and EPS. With our portfolio now focused in North America, currency translation is not expected to have a material impact as non-U.S dollar sales are now less than 10% of the total.

Net sales are expected to increase 1% to 3%, reflecting the extra week, growth in Snacks and improving trends in Meals & Beverages.

Adjusted EBIT is expected to increase by 2% to 4%, reflecting sales growth and benefits from our cost and synergy program and productivity gains, which are funding planned increases in marketing support.

Adjusted EPS is expected to increase by 9% to 11%. As I'll detail for you in a moment, EPS is benefiting from the use of divestiture proceeds including those anticipated from Campbell International to reduce debt. Although we don't provide quarterly guidance, I will say that we expect our first half results to be negatively impacted by accelerated marketing investments to support our snacks business and to improve the performance of U.S. soup. In addition, we expect cost inflation rates to moderate gradually throughout the year.

Given the many moving parts to our financial reporting, we thought it would be helpful to provide additional details behind our EPS guidance. As discussed, 2019 results are a combination of discontinued and continuing operations. From the 2019 continuing operations base of \$2.30, EPS will benefit from several drivers in 2020. First, interest expense will benefit from the use of C-Fresh divestiture proceeds and the anticipated proceeds from the international divestitures. Based on our anticipated closing in the first half, we expect an interest benefit of approximately \$0.16 per share. This estimate is based on currently anticipated closing date. And to the extent those change, we will update you.

Next, the additional week will add approximately \$0.04 per share, while growth on the base business, on a like-for-like basis add \$0.00 to \$0.05. Together, these drivers get us to our 2020 adjusted EPS guidance for continuing operations of \$2.50 to \$2.55.

If you're using these numbers to calculate the dilution from our divestitures, please note that the interest benefit shown here is only a partial year. There's an estimated incremental \$0.07, which will wrap into 2021.

Turning to some of the key assumptions underlying our guidance, although moderating somewhat, we expect cost inflation to be approximately 3% in 2020. As we've successfully delivered in the past, we expect ongoing supply chain productivity gains, excluding the benefit of our cost savings program, of approximately 2% to 3% of cost of products sold. Against our cost savings program, we expect to deliver an additional \$140 million of cost savings, including a meaningful contribution from Snyder's-Lance synergies.

Including the anticipated benefit of divestiture proceeds, we are forecasting interest expense in the range of \$290 million to \$300 million. Below-the-line and comparable to this year, we expect the adjusted tax rate to be approximately 24%. We are forecasting capital expenditures of approximately \$350 million, a decrease from 2019 spending, reflecting the divestiture program.

Lastly, and as Mark mentioned, I will be leaving the Company to pursue other interests. I have very much enjoyed my time here, and certainly wish the Company all the success going forward.

That completes my review. And now, I'll turn it back to Ken for the Q&A.

Ken Gosnell

Thanks, Anthony. We'll be happy to take your questions. Candice, let's open the lines and take our first question.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] And our first question comes from Andrew Lazar from Barclays. Your line is now open.

Andrew Lazar

Good morning, everybody. And Anthony, all the best going forward, thanks for your help over the years. Just, two quick things. One would be, Mark, I realize fiscal '20 is not yet the year where you have everything firing in terms of reframing the soup category. Perhaps you could run through maybe just sort of top two or three things in that core soup

... maybe you could run through maybe just sort of top five or three things in that core soup business that we should be focused on really in order to monitor the progress as we go through sort of the coming soup season. Maybe those key benchmarks or metrics that we can sort of focus on, again to monitor the progress.

And then, just second, as we think through the relationship between inflation and productivity and such, it seems like you're looking for, I would assume a productivity and maybe some incremental pricing to about help offset what you expect inflation to be. Is it right to think that that leaves the cost and synergy savings really as the -- what's -- what you have as flexibility to reinvest behind the business this coming year, kind of that \$140 million bucket and such? Thanks so much.

Mark Clouse

Yes. Thanks, Andrew. Well, let me start with the soup question first. And maybe, it'll be helpful to give a little bit of context on what we're seeing in the marketplace right now, and then how that kind of bleeds into the 2020 assumptions. So, on the positive side, a couple of things that we're finding are very helpful. And it was great to see -- albeit the summer and the fourth quarter, it was great to see growth on soup. It's the first time in quite a number of years that we've been able to drive growth on the business. And I think, if you look under what's really driving that, I think, there's three things.

The first is, the power of partnering again with our retailers to really collaborate with them on creating a vision and direction for the category and for the business. And I think, in many ways that is translating into a far better performance and market better merchandising, better reflection of our innovation that we do have, and a good understanding of the right merchandising and pricing combination.

I think, the other thing that's been very effective has been the almost relaunch of Well Yes! behind the convenience platform. In the fourth quarter that business was up 34% and added 0.3 of a share point. And so, although we're light on innovation, as we've said in the past, I think, the things that we are doing are working well. And so, I would expect those positive drivers to carry forward into the 2020 season with the addition of a couple meaningful adds to that. So, our marketing and the strength of both the investment levels, as well as the quality of that communication, I'm very excited about, as well as the investment and quality, and some additional investments in pricing and the shelf, while we

investment and quality, and some additional investments in pricing and the shelf, while we continue to cultivate those relationships with partners -- our retail partners, as we go forward. I do think though, there are a couple of headwinds that will moderate that. And I'll get to the kind of benchmarks at the end.

If you look under the results today, you do see a fair amount of contribution in the headwinds related to distribution. So, where this is coming from is some of the flankers on the ready-to-serve side, as well as what I would call some of the tail, if you will, of the condensed business. The majority of this distribution loss is not regrettable losses, but it is providing a bit of a headwind to the business. I do think that will moderate as we go through 2020, but I do expect still some headwinds from that. And then, on the merchandising side, it will be a little bit of a balancing act. I expect to see us more aggressive on businesses like broth, where we're seeing a lot more competitive tension, especially with private label. And I would see promoted prices in some places where there are just unsustainable levels going up, which I know in the -- and as we expect in the near term, we'll see a little bit of headwinds from there.

So, as you go into the season, I think, you'll want to look for, one, the executional performance of seeing the additional supported merchandising and market the quality of that, the improvement on the products, and the improved quality on the businesses, as well as a more balanced approach to pricing. And my expectation is that you should expect them to see a more stable performance through the season. I certainly am hoping, and I think if we hit things on all cylinders, we'll see improvement in share as well. But, I also think we're being prudent in setting expectations in a balanced way as we really validate some of the work we're doing. But, I think going through the season, if you were to see a more stable performance and an improving trajectory on share, I think that would be a successful season and I think a great proof point on this next iteration of the business going forward.

And then, Anthony, I don't know if you want to take the second question. We can kind of do it together probably?

Anthony DiSilvestro

Andrew, thanks for the comment. I think the way to think about it is, on our \$140 million of cost savings, think of about half of that going into costs and the other half going into marketing and SG&A. So, within gross margin, that combination of cost savings and productivity savings should be ahead of inflation. So, it gives us some slight improvement in gross margin percentage. And then, that will provide the fuel to reinvest back into the marketing line as we go into 2020.

Mark Clouse

Yes. I just would say, Andrew, as you think about that though, one of the things we've tried to do in this plan is, there's a little bit in my mind, I would say, flexibility that we want relative to pricing and making sure that our price gaps remain within the targets that we want them. So, I think we've -- as you'll note from how we've laid out guidance, we stopped short of guiding directly to gross margin because I do think we want a little bit of that flexibility. But, I think, the general balance of investment, as it relates to inflation and productivity, as Anthony laid out, is right. All I would say is, I want to leave us a little bit of flexibility where that investment might land, depending on how we see the environment unfold. Does that make sense?

Andrew Lazar

Thanks so much. It does, really appreciate the color.

Operator

Thank you. And our next question comes from Ken Goldman from JP Morgan. Your line is now open.

Ken Goldman

Hi. Thank you. And, Anthony, best of luck from me as well. Thanks for all of your help over the years. Mark, on slide 13, I think it is, you highlighted, I think 17% of the snacking business being non-core, and sort of broke out how you think about classifying some of those assets. History might suggest that when companies do this, sometimes the signal is that some of these businesses are being considered for divestiture. So, I wasn't sure if

that's what you were implying by breaking it out and emphasizing it in this way. But, I kind of wanted to just get a little bit more color on what you were -- on the messaging from that slide.

Mark Clouse

Yes. Thanks, Ken. I think, the point of it was I do think it's more about the 11%, which is the partner and allied brands. I know everybody's familiar in general with what those are, but we haven't talked a lot about it. And I think, as we've gone through it, we've now spent a year or so running it. We recognize the importance of that business. But, I also would say, there is a tremendous amount of complexity that's inherent with that. If you think about the addition, as I said in my comments of almost 2,000 SKUs that we're trying to manage, what I would tell you is there some really good parts of that business and there's some other parts that are very low margin, adds a lot of complexity. And I think as we go forward and we really want to get this business set for the future, we're going to balance that. So, focus on the parts of it that we really see is enhancing that efficiency and scale as it was originally set up to do. And there's probably some parts of that that we'll rationalize going forward.

And I know, a lot of times as we reconcile the growth rate on Snacks, for example, in this particular quarter, our power brands on Snyder's-Lance grew 3% in market, while the total Snyder's-Lance business was up about 1.5% or so. And that difference I think is important just to understand that going forward, as I would expect that to continue going forward.

The balance of the non-core businesses, which are primarily our Emerald nuts business and our Pop Secret business, are actually -- been pretty stable contributors. And right now, we'll always kind of review the portfolio and look at the longer term desire to have the optimal mix. I think, right now, we're feeling pretty good with that base business as we move forward, and we'll continue to look at it. But more importantly for us I think and this messaging was really about understanding the partner and allied brands a little better.

Ken Goldman

Okay. Thank you for that. That's helpful. And then, some of the efforts that you are making this year require a little bit of a buy-in, for lack of a better word, from your customers,

right? Whether it comes to some on-shelf changes for where you'd like condensed to be placed or certain changes in RTS. And at the same time, I think by your own admission, there is a decent innovation slate coming, but most of it or the bigger one is coming next year. So, can you update us on sort of how your relationship is with those customers right now, and with all of those changes, and I guess I could mention sort of lifting some promotional prices as well? Right now, is everything going sort of swimmingly and as you expected or is there a little bit of pushback right now in the process?

Mark Clouse

I think, overall, it's -- I would say it's going very well. And in fact, I think, in many ways, is a little harder to quantify this as you get into the journey. But, the reality is, I think, in many ways, we've been absent from the dialogue strategically with our customers on the vision in the future for these businesses. And I think, as we're getting back to the table, really rolling up our sleeves and starting to see investment come and a focus in a very different way, the receptiveness to work together has been very, very positive.

And I think, a lot of times we've talked about the challenges in soup as a category. But remember, the significance of how big this category is and what it represents for center of store for most of the retailer universe, it's critical that there is a vision and a plan for this. And so, as you look -- again, I get it, a summer quarter, but as you look at a quarter like Q4 where you see overall positive response, not just in our business, but also improvement in the overall category, it goes a long ways to keep people interested and engaged. Now, I will say, I think, as perhaps as appropriate, I think, a lot of the retail universe wants to see the results as I think all of us in the effectiveness of some of the programs and the plans we're doing. But, as far as where we are in the journey right now and where we've come from, I really could not be more pleased with the receptiveness and the collaboration of our retail partners.

Operator

Thank you. And our next question comes from Bryan Spillane from Bank of America. Your line is now open.

Bryan Spillane

Hey. Good morning, everybody. And all the best from me as well, Anthony. Thank you. So, I guess, first question, just -- Anthony, if you could just give us or let us know, net leverage on a pro forma basis. So, like once the proceeds are put to work, I'm getting around 3 times. Is that right?

Anthony DiSilvestro

Yes. Obviously, our target remains 3 times debt to EBITDA but we won't quite get there with the current proceeds. We need a little more time with the base business generating positive cash flow. But, we will make a meaningful reduction when we get the proceeds in.

Bryan Spillane

Okay. And then, I guess, Mark, as we're thinking about that, you're going to get closer to that target. How do you think about ongoing sort of returning cash to shareholders? Just the thoughts about dividend increases, or share repurchases, just how you kind of think about that going forward?

Mark Clouse

Yes. I mean, I think, as we get to more stable footing, we will continue to look at the best deployment of capital. And again, I think, all of those are areas that we will continue to explore and make sure that we're trying to optimize value, while also -- again, I've said this before, although I think it will come in a very different context, perhaps than where we've been in the immediate past, but I do think there are going to likely be some opportunities for some tuck-in M&A as well. And as we go forward, we'll begin to frame that in a little bit more clarity. But, I do think, I'd stop short to say right now what the priorities are. But, of course, our focus is going to be on maximizing shareholder value. And we'll continue to look at all those options, and working with the Board to find the plans going forward. But certainly, it is good. And I think in many ways, as I think about '19, as we complete the year, I think one of the strongest elements of that -- of this year has been that we have taken a lot of that uncertainty for the business off the table. And so, whether that is the balance sheet, whether that is a much more diverse portfolio as it relates to International and the Fresh business, I think the good news for us is, our core business now and the predictability of it, relative to the variables that we're controlling. I feel really good about

that. And I think that I hope that will also be a strong statement for investors as well, as you're thinking about how to view our business going forward. And although we've got some important proof points in '20 to deliver, taking some of that downside off the table, I think is a very good progress for us in a year that saw a lot of moving parts.

Bryan Spillane

Okay. And if I can, just one last quick one, are there any stranded costs related to the divestitures that you'll be absorbing this year that might go away next year?

Anthony DiSilvestro

Yes. And I think, we talked about this last quarter. There's about \$20 million with each business, both Campbell Fresh and Campbell International. I think, the way to think about it is that that becomes part of our addressable spend on the core, against which our cost savings program that's going to address and get after.

Mark Clouse

Or said another way, Bryan, we contemplated to a certain degree those stranded costs as we went through the organizational redesign and restructure that we just rolled out a month ago. So, the progress to get there, but we certainly had visibility to that and thought about that and some of the design work we've been doing.

Bryan Spillane

All right. Thanks for that. Have a great Labor Day.

Mark Clouse

Yes, you too, Bryan. Thanks.

Operator

Thank you. And our next question comes from Jason English from Goldman Sachs.

Jason English

Hey. Good morning, folks. And Anthony, congrats on a great career at Campbell, and good luck on the next chapter. I've got a couple of questions. First, real quick, a housekeeping, kind of picking up where Mr. Spillane led us on the leverage. Can you give us your expectations for cash from operations in fiscal '20 and your best estimate of where you're going to land from a leverage perspective by year-end?

Anthony DiSilvestro

So, a couple of comments to make on cash. We had a fantastic year this year on cash from operations and free cash flow. But, as you think about going forward, we don't expect to be at the same level we are today. And first of all, two reasons. One is, Campbell Fresh was a positive cash flow generator; Campbell International was a positive cash flow generator. We won't have those in the portfolio going forward. We had great progress on working capital this year. And so, although we expect to continue to reduce our working capital, probably not at the same pace that we did this year. So, that being said, we do expect to continue to generate significant positive cash from operations. That's one of the attributes of this business. But, I don't think we're going to give you an exact number on that one. And in terms of the leverage ratio, I think, we'll be meaningfully below 4 times debt-to-EBITDA by the end of 2020.

Jason English

Yes. And is the unwillingness to kind of frame the cash flow a factor of just too many moving pieces right now? I guess, I'm a little confused on why the lack of clarity on that.

Anthony DiSilvestro

Yes. I mean, we're still working through it, in terms of finalizing our 2020 expectations for cash flow. So, we just need to work through it ourselves first and foremost.

Jason English

Okay. And the next question, coming back to soup. The last couple of years have been a bit anomalous just in terms of the cadence to your soup build because of the promotional support at retail, and historically, you've been much heavier shipping in the first quarter

perhaps for soup season. With the improved relationships with retailers and the slightly more aggressive stance, should we expect this to be a more normalized year?

Mark Clouse

Yes. I think so, Jason. We're watching closely. I mean, one of the things we are realizing though is that -- and even if you look at this last quarter, we've been kind of I would say running a bit in front of consumption with our net sales and our shipments. And part of that is a little bit of what we're lapping from a year ago. But, it is also a little bit of the recognition that as we strengthen our merchandising programs, the inventory levels that retailers are needing to support that is a little bit higher than it might have been historically. But, I do expect as we get into '20 to have a more normalized year on that, you'll always see a bit of inventory that's going to build in front of the season just because of the step-up in display and merchandising. But, I do think, as we kind of manage through the year, I don't think you'll see quite the volatility up and down as we did in '19.

Operator

Thank you. And our next question comes from Chris Growe from Stifel. Your line is now open.

Chris Growe

Hi. Good morning. And Anthony my best wishes to you as well. And thanks much for all your help over the years. I just wanted to ask a quick question if I could on Meals & Beverages. It's a business that is stabilizing and you had a good fourth quarter performance, and that comes amidst, it seemed like little incremental spending this year. You talked about some of the factors that led to the better performance. But, I want to get a sense of -- given the success you're seeing already and your desire to spend more aggressively in fiscal '20, do you expect that to really take a step forward in fiscal '20? And if I can relate to that, how much spending -- you talked about \$70 million, if I recall, or so, at the Investor Day, does that -- all of that come through in fiscal '20 or is that going to spread over the future?

Mark Clouse

Yes. So, a couple of things just to ground back on the numbers. So, the \$70 million we talked about was the soup investment. Overall, if you include the Snacks business and the broader Meals & Beverage business, it's a bigger number. What we said was about a half -- about half of our cost savings target over the next couple of years is what we've carved out, if you will, as the investment dollars we're planning. I do think you'll see that a bit more frontloaded in 2020 as we talked about it, which is a little bit of why I think the calibration of a more neutral year is expected.

On Meals & Beverage, I do think there continues to be some puts and takes. We are encouraged by the support that we're seeing across the businesses. But, we do have some work, as we've said, to make sure that we're doing the right things to set up the portfolio for the future, while getting that investment in place. And again, I do think an important aspect of this will be the contribution from innovation, which really is more of a '21 factor. I also think we're trying to be a bit pragmatic in how we're positioning expectations as we validate some of the work that we're doing. And I think the good news is, if we're successful, more comprehensively on many of these things, I do think you'll see an improvement in that Meals & Beverage business as we go forward. And, I think, we will continue to update milestones along the way. But, certainly, seeing the performance on soup, seeing improvement in Prego and Pace, although V8 is still showing declines, I would tell you that the primary driver of that decline is Splash as we work through how we want to position that business for the future, which is including some rationalization on distribution and really trying to get that to a business that we think is the appropriate, manageable level, while we then pivot on support for the more plant-based messaging that we see on the core V8 business, as well as the V8 plus, which is energy and hydration, and our single-serve can business.

So, again, I think, we've got really clear roadmaps now for these businesses. And I certainly hope that we continue to perform well. But, I do think, I want to be a bit balanced as we go forward until we validate some of this effort and some of the work. Does that make sense, Chris?

Chris Growe

Yes, absolutely does. Yes. That makes a lot of sense. That was good color. And that's what I was looking for. Thank you. I have just one other quick one behind that if I could, which is, there was a comment about over-delivering on the value capture. You also said, the integration was on track. Are you getting savings more quickly or more savings? So, just trying to get my head around what over-delivering means there?

Mark Clouse

Yes. I think, it's really savings more quickly. So, I think we've been able to execute on a few initiatives ahead of Pace. I don't think, it's truly incremental to the program. But, I do think, -- we're obviously continuing to keep that pressure on as we go into '20 to continue to try to move initiatives as fast as we can, as we want to unlock that and that's the fuel for the investment that we need on the business. We're pleased that we're getting to it sooner. But, I would not say that we're seeing it as truly incremental savings for the overall program.

Chris Growe

Okay. That's good color too. Thanks so much for your time. And have a great weekend. Thank you.

Mark Clouse

Thanks, Chris.

Operator

Thank you. And our last question comes from the line of Robert Moskow from Credit Suisse. Your line is now open.

Robert Moskow

Hi. Thanks. And best wishes to you, Anthony. Just a couple of clarifying things, Mark. The price adjustments that you're making in soup, it sounds like there is several things. There are some deep discounts you want to walk away from, but then you're -- are you also saying that there is going to be some items where you want to reduce price, to become

more competitive? And then, secondly, on soup, can you give us a little more specifics on the quality improvements that you want to make and where you think there's quality gaps versus competition?

Mark Clouse

Yes, great question. So, your depiction of the pricing is exactly right. So, to give you a little bit more color on that, I do think, especially as you look at our Chunky business, I would say we in the absence of some of the support in marketing, I think some of the promoted price points that we've seen are more aggressive than what I would say is appropriate and sustainable. I mean, one of the things that as I've said before that's quite powerful about Chunky is the quality of that product and its ability to really be -- to beat essentially any of the other ready-to-eat soups, on a quality perspective. And so, when we're dealing it so deep on price, I just don't think that's the right platform.

Now, what we will try to do is balance a little bit of that with some frequency and then, of course, a much more robust marketing program around it. And I think though and as we've all seen this before, I also don't want to overset those expectations, as I know there will be some perhaps short-term impact of that as we move off it. But, it's absolutely the right thing to do to create the margin stability and really the positioning of the brand going forward. Conversely, I think if you look at broth where we're seeing the greatest amount of competition, I think there, although I would not say we want to get deeper on promoted price points, I do think our frequency has opportunity to increase as we make sure that those price gaps, especially in critical parts of the season are more competitive.

And so, I think on both the broth business and selectively on condensed where we still see a little bit of outlier as it relates to particular price gaps, I think, you'll continue to see us, again, not so much on lowering absolute price points, but adding appropriate frequency on merchandising. So, that's the balancing act on pricing.

And your second question is actually a great combination to that discussion on pricing, which is quality. So, the places where I think we have the greatest competitive pressure, whether it's on broth or whether it's on condensed is where you're going to see a significant step up in quality. And that will come both from some product improvements

and investment. So, think of enhancing ingredients. And again, as I said at Investor Day, we're really focused on our four core SKUs and flavors on condensed which are cream of mushroom, cream of chicken, chicken noodle and tomato. So, across all four of those, you'll see a combination of improvement in quality, while also really heightening some of the inherent benefits of the products within the existing formulations that we think are much stronger differentiation than we've been using in the past, whether that is double stock and simmer time on broth, whether it's six tomatoes in every can of tomato soup, there's a variety of things that we think we can really use to help. And we've done extensive research now too to really understand especially on our lapsed users. So, the consumers that are either trading to lower price offerings or departing our segments, what is really driving that behavior, and we've targeted the quality improvements to really try to answer those questions.

And so, we're feeling really good about that. And I think most of that will be ready as we go in the season. There will be a few of the quality improvements that will either flow in, in the back half of the season or a couple that likely won't be fully in place, until '21. But, I am feeling good about what we'll have to work with as we go into the '20 soup season.

Robert Moskow

It's very helpful. And before I let you go here, you mentioned some flanker products in RTS and condensed that lost distribution. Is that new since the Analyst Day or was that already contemplated when we met?

Mark Clouse

It was already contemplated. But, I do think, as we start to try to help everybody see the detail of the soup results, because we're all obviously going to be watching it very closely. What I'm really trying to do is make sure we're really crystal clear on what the puts and takes are, and to a certain degree why are our expectations what they are. I do think, there are some elements within that distribution that again I do expect it to mitigate. And of course once we get the innovation going, that's going to be a big help. But, I do think, there are some things within both of those businesses that I would expect to see, especially in the first half of the year.

Operator

Operator

Thank you. And that concludes our question-and-answer session. Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program. You may all disconnect. Everyone, have a great day.