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Market Intelligence

The Simply Good Foods Company NasdaqCM:SMPL

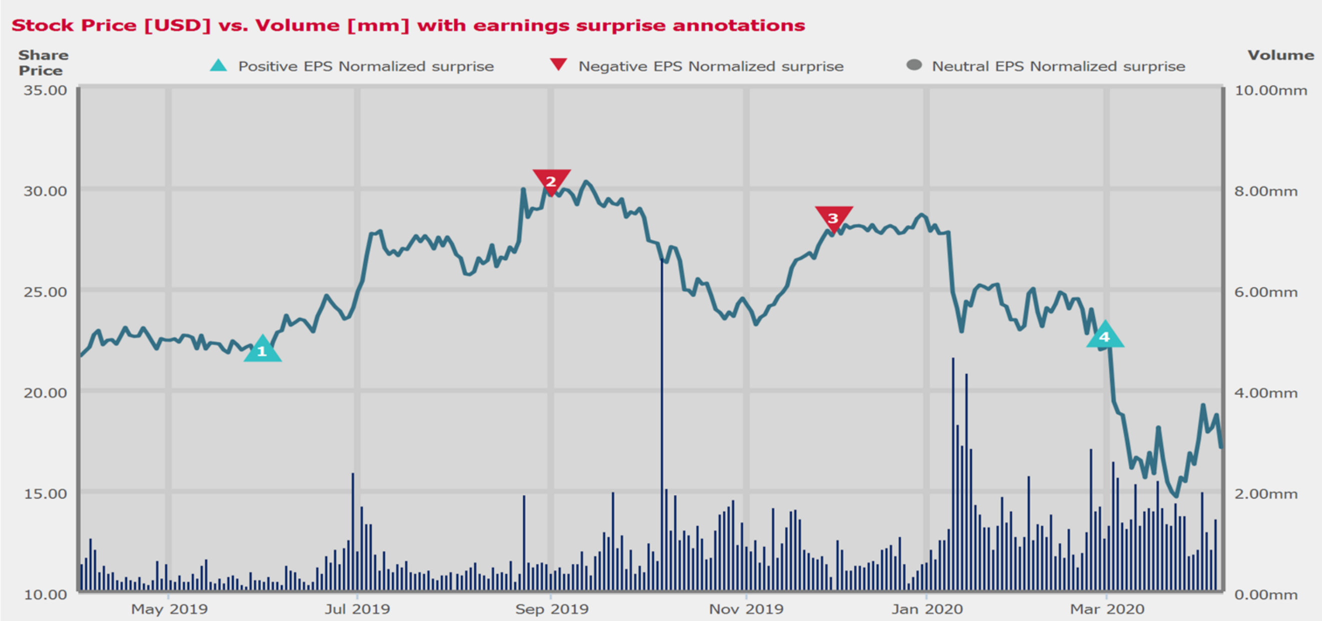
FQ2 2020 Earnings Call Transcripts

Monday, April 06, 2020 12:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2020-			-FQ3 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.17	0.18	▲5.88	0.23	0.87	1.08
Revenue (mm)	220.22	227.10	▲3.12	244.60	863.19	990.45

Currency: USD
Consensus as of Apr-03-2020 10:31 AM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ3 2019	0.13	0.17	▲1 30.77 %
FQ4 2019	0.15	0.10	▼2 (33.33 %)
FQ1 2020	0.20	0.19	▼3 (5.00 %)
FQ2 2020	0.17	0.18	▲4 5.88 %

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Call Participants

EXECUTIVES

Joseph E. Scalzo
CEO, President & Director

Mark Pogharian
Vice President of Investor Relations, Treasury & Business Development

Todd E. Cunfer
Chief Financial Officer

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Jefferies LLC, Research Division

Presentation

Operator

Greetings and welcome to The Simply Good Foods Company Fiscal Second Quarter 2020 Conference Call. [Operator Instructions] Please note, this conference is being recorded. I will now turn the conference over to your host today, Mark Pogharian, Vice President of Investor Relations, Treasury and Business Development. Please proceed, sir.

Mark Pogharian
Vice President of Investor Relations, Treasury & Business Development

Thank you. Good morning. I'm pleased to welcome you to The Simply Good Foods Company earnings call for the second quarter ended February 29, 2020. Joe Scalzo, President and Chief Executive Officer; and Todd Cunfer, Chief Financial Officer, will provide you with an overview of our results, which will then be followed by a Q&A session.

The company issued its earnings release this morning at approximately 7:00 a.m. Eastern Time. A copy of the release and accompanying presentation are available under the Investors section of the company's website at www.thesimplygoodfoodscompany.com. This call is being webcast live on the website and the archive of today's remarks will also be available.

During the course of today's call, management will make forward-looking statements that are subject to various risks and uncertainties that may cause actual results to differ materially. COVID-19 has been included as a risk as it's uncertain what the potential impact could be to our business and therefore, it could cause our future results to be different than our current estimates. The company undertakes no obligation to update these statements based on subsequent events. A detailed listing of such risks and uncertainties can be found in today's press release and the company's SEC filings.

Note that on today's call, we will refer to certain non-GAAP financial measures that we believe will provide useful information for investors. The presentation of this information is not intended to be considered in isolation or as a substitute for the financial information presented in accordance with GAAP. Please refer to today's press release for a reconciliation of the non-GAAP financial measure to the most comparable measure prepared in accordance with GAAP.

With that out of the way, it's now my pleasure to turn the call over to Joe Scalzo, President and Chief Executive Officer.

Joseph E. Scalzo
CEO, President & Director

Thank you, Mark. Good morning and thank you for joining us. Today, I'll recap Simply Good Foods' second quarter highlights and provide you with some details on the performance of our Atkins and Quest brands. Then Todd will discuss our second quarter financial results in a bit more detail and we'll wrap it up with a discussion of our outlook and then open the call to your questions.

Before we get into the details of our Q2 results, I'd like to discuss the impacts we're seeing with respect to COVID-19. Overall, the first half of fiscal 2020, which ended on February 29, exceeded our expectations with no material impact from COVID-19. We entered the second half of the fiscal year with positive net sales momentum, solid cost containment and confidence in our ability to execute our plans and to deliver on the outlook we provided on our earnings on January 9. Furthermore, the Quest integration is on track and our synergy plans are proceeding as expected.

In March, overall retail foot traffic was extremely volatile with the surge in the beginning of the month, followed by a significant slowdown in the second half of the month at most brick-and-mortar retailers. The retail takeaway trends of both our category and our brands followed a similar pattern.

Given the likely continuing uncertainty around consumer purchasing behavior due to COVID-19 movement restrictions, we believe it's prudent to withdraw our fiscal 2020 full year guidance at this time. Our key priorities now are to safeguard the continued health of our employees and communities, ensure the reliability of our supply chain and provide accurate and timely service to our retail customers and consumers.

We are in close communication with our key customers and suppliers. And to date, our supply chain remains robust and fully operational. Our contract manufacturers are taking extra measures to ensure that they are providing their workers with a safe environment and are committed to meet the consumer and customer requirements of our business in the coming weeks and months.

Next, we will do what's right for the long-term health of our employees, brands and business. Now let's move on to Slide 5 and discuss our fiscal second quarter results.

Second quarter results were greater than our expectations as both Atkins and Quest delivered strong sales growth as well as gross and adjusted EBITDA margin expansion. Legacy Atkins' retail takeaway in the second quarter was generally in line with our estimates. Growth was driven by bars and confections across all channels. Additionally, Atkins' e-commerce momentum continued with sales up double digits.

Quest's Q2 results were strong across all metrics and are tracking to our acquisition model. Integration work continued and is progressing on schedule. In our fiscal second quarter and for the year-to-date period, the nutritional snacking category increased mid to high single digits. The growth rate may move around a bit in the short term due to changing shopping behavior related to COVID-19 movement restrictions. But over the long term, we believe the megatrends that have fueled nutritious snacking categories such as healthy snacking, convenience, meal replacement and on-the-go consumption will continue to be tailwinds for our business and brands.

In Atkins and Quest, we have 2 trusted advantaged lifestyle brands that target different consumer groups and position us to maintain our leadership role within the category. On a run rate apples-to-apples basis, we have a scaled business with net sales in excess of $900 million, and our outsourced supply chain enables solid margins, low CapEx and results in strong cash generation.

The Atkins and Quest brands are tightly aligned around the consumer megatrends such as more frequent snacking occasions and the desire for on-the-go meal replacement. In addition, our products are uniquely positioned to benefit from growing consumer interest at high protein, low carb and minimal sugar. This profile has broad appeal to consumers interested in better-for-you as well as weight management and active nutrition shoppers looking to achieve their goal.

And while we like the diversified forms on this page, bars, chips, shake, cookies and confections, we also have a solid R&D pipeline that we'll continue to work on and refine. This is an advantaged portfolio with solid margins and financial flexibility to invest in marketing to drive growth.

Turning to the second quarter, net sales increased 83.4%. Legacy Atkins' net sales increased 12.1%, and as expected, outpaced the increase in retail takeaway due to our strong e-commerce growth as well as a slight seasonal inventory build. The contribution from Quest was a 71.3% benefit to net sales growth and grew strong double digits versus the comparable period a year ago.

The increase in adjusted EBITDA is a direct result of higher gross profit driven by higher Atkins net sales and the benefit of Quest. The increase in gross profit was partially offset by the timing of marketing we previously discussed.

Total Simply Good Foods Company's second quarter and year-to-date retail takeaway in the IRI MULO measured outlet universe increased 11.8% and 13.6%, respectively. Note that this includes the traditional food, drug and mass merchandisers as well as Walmart, BJ's, Sam's and dollar stores. Additionally, IRI MULO captures about 90% of legacy Atkins' U.S. sales. However, it only represents about 50% of Quest's sales.

Atkins' Q2 retail takeaway increased 6.1% with growth across all major channels. We are particularly pleased with our performance in the club channel, which was up strong double digits on a percentage basis versus last year. And Atkins' e-commerce business continues to do well, up about 60% in both the quarter and year-to-date periods with bars, shakes and confection all up double digits. And while early on, our momentum here has continued into Q3.

Year-to-date, e-commerce represents nearly 7% of Atkins' total gross sales. We've doubled our e-commerce business over the last 2 years and anticipate continued growth over our strategic planning cycle. Quest's second quarter nutritional snacking growth was up about 27% driven by growth in food, mass and club channels. In nonmeasured channels, the specialty class of trade has been a headwind. This is a broader multiyear category issue and not specific to Quest. And given the COVID-19 movement restrictions, the specialty channel could be a greater headwind in the balance of fiscal 2020.

The building blocks of Atkins' point-of-sale growth are similar to what we discussed over the last few years: strong base velocity growth. By form, year-to-date bars and confections retail takeaway growth remained strong, up about 8% and 31%, respectively. Shakes were off roughly 4% in the second quarter and the year-to-date period due to challenging year ago comps and other new branded product entries as well as a distribution loss of our 30-gram shake at a couple of retailers.

As expected, base velocity in bars and confections was solid and distribution was down due to shakes as well as the decision we made last year to close some underperforming bar flavors to free up supply capacity. Promotional volume returned to more normalized levels following our scale back in fiscal 2019 due to supply constraint. Although this may not be the case in the second half of the year due to changing shopping behavior related to the COVID-19 situation, retailers are reevaluating the timing of shelf resets and promotion plans that may result in a delay or cancellation of some of our previous agreed to programs.

Let me now turn to Quest. As a reminder, Quest is a uniquely positioned brand. The management team has done a great job transitioning its positioning from a high-protein bar brand to a broader healthy lifestyle snack brand focused on providing craveable food backed by metabolic science. About 2/3 of the business is the core protein snack bar with the remaining 1/3 consisting of fast-growing products such as protein chips, cookies and pizza. But no matter which product you consume, the nutritional profile is the same: high in protein, low in carb with minimal sugar.

Additionally, Quest generates about half of its U.S. sales in the IRI MULO universe in traditional food, drug, mass and club channels. The other half of Quest's U.S. sales are generated in the convenience store class of trade and the unmeasured e-commerce and specialty channels, which are not tracked by IRI or MULO.

Quest's year-to-date retail takeaway in the measured IRI MULO universe increased 27.6% with equally balanced gains from both base velocity and distribution gains. Growth across all major forms was up double digits on a percentage basis versus last year, including the important bar business, which increased 12.7% in measured channels.

The Quest team continues to do a great job of driving awareness, consideration and trial via their sophisticated digital and social marketing efforts. The unique Quest Squad influencer network is effective in attracting and retaining core consumers. The presence across various social media platforms such as Instagram, where Quest has nearly 900,000 followers, has driven solid growth.

And the Quest R&D team has recently launched some close-in flavor and line extensions as well as some new pack types such as the snack bar and 4-pack protein chips depicted on this slide. We're confident in our long-term growth plans for this business. It's a scaled lifestyle consumer brand and not just a single product. And like Atkins, it's backed by an underlying nutritional philosophy supported by science: high protein to improve strength and low carb and sugars to minimize blood sugar spike while providing a steady source of energy. Quest is in the early innings of growing brand awareness, consideration and trial, and we believe a significant runway exists for long-term growth.

In summary, The Simply Good Foods Company competes in an attractive category and is a leader in that category. The combination of Atkins and Quest provides us with 2 uniquely positioned brands and a diversified portfolio that is aligned around the consumer megatrends of wellness snacking, convenience and meal replacement. We're operating our business for the long term and committed to do the right things for our employees, customers and consumers during this challenging time.

Now I'll turn the call over to Todd, who will provide you with some greater financial details.

Todd E. Cunfer
Chief Financial Officer

Thank you, Joe, and good morning, everyone. Let me start with 2 points as it relates to the numbers you see on the slides that follow. First, for comparative purposes, we will review financial statements with the 13 and 26 weeks ended February 29, 2020. Second, given our asset-light strong cash flow business model, we evaluate our performance on an adjusted basis as it relates to EBITDA and diluted earnings per share. We have included a detailed reconciliation from GAAP to adjusted historical items in today's press release. We believe these adjusted measures are a key indicator of the true underlying performance of the business.

I will begin with a review of our net sales drivers of growth. Second quarter U.S. legacy Atkins volume growth was 13%. Higher volume was partially offset by greater trade promotion resulting in total U.S. legacy Atkins net sales growth of 12%. As expected, this was greater than the retail takeaway growth of 6.1% given the continued strength of our nonmeasured e-commerce business as well as a slight seasonal inventory build. Legacy Atkins' non-U.S. net sales, including Canada and our international business, was up a healthy 13.5%. As a result, total organic net sales growth in the quarter was 12.1%. The Q2 Quest contribution was a 71.3% benefit resulting in total Q2 net sales increase of 83.4%.

Now for a review of second quarter results across other major metrics. Gross profit was $85.4 million, an increase of $35.7 million or 72% driven by legacy Atkins' sales growth and the inclusion of Quest, partially offset by a noncash $5.1 million inventory purchase accounting step-up adjustment related to the Quest acquisition, which is now complete.

As a result, gross margin was 37.6%, a 250 basis point decline versus last year. The noncash inventory step-up adversely impacted gross margin by 220 basis points. Quest's lower gross margin and the previously mentioned increase in trade promotions were a 30 basis point headwind.

Input costs were relatively benign in the quarter and we expect only modest inflation for the year. Adjusted EBITDA increased 81.7% to $41.7 million driven by the increase in gross profit partially offset by selling and marketing expenses, which increased 83.6% or $12.3 million to $27 million. The majority of the increase, about 75%, was due to the addition of Quest and the remainder driven by the timing of our higher legacy Atkins marketing expense as discussed previously. Additionally, G&A expenses increased by 82% in Q2, primarily attributable to Quest as legacy Atkins was relatively flat to the year ago period.

Moving to other items in the P&L. Interest expense increased $7.2 million to $10.6 million due to the increase in the term loan balance. Our effective tax rate in the second quarter was about 26.9%, higher than the year ago period of 24%. As a result, reported net income in Q2 was $10.7 million versus $12.7 million in the year ago period.

Year-to-date results are as follows. As I indicated earlier, net sales was driven primarily by volume growth and the Quest acquisition. Gross profit was $147.6 million, an increase of $46 million or 45.3% driven by legacy Atkins sales growth and Quest. This was partially offset by the noncash $7.5 million inventory purchase accounting step-up adjustment related to the Quest acquisition. As a result, gross margin was 38.9%, a 260 basis point decline versus last year. The noncash inventory step-up adversely impacted year-to-date gross margin by 200 basis points. Quest's lower gross margin and the previously mentioned increase in trade promotions were a 60 basis point headwind.

Adjusted EBITDA increased 48% to $73.5 million driven by the increase in gross profit, partially offset by selling and marketing expenses, which increased 51.3% or $15.4 million to $45.5 million. The majority of the increase, about 75%, was due to the acquisition of Quest and the timing of higher legacy Atkins marketing expenses as discussed previously. Additionally, G&A expenses increased $14.5 million to $36.6 million primarily attributable to Quest and higher legacy Atkins employee-related costs. Business transaction costs were $26.9 million and primarily associated with Quest acquisition.

Moving to the other items in the P&L. The net impact of interest income and interest expense was an increase of $9 million due to the increase in the term loan balance. Year-to-date income tax expense was $2.2 million versus $8.7 million in the prior year. In fiscal 2020, we anticipate an effective tax rate of around 26%. As a result, Q2 year-to-date reported net income was $5.9 million versus $28 million last year.

Now turning to earnings per share. In the second quarter of 2020, the company reported $0.11 per share diluted compared with $0.15 per share diluted for the comparable period of 2019. The Q2 year-over-year change was impacted by the noncash inventory step-up of $5.1 million, integration costs of $3.9 million and business combination costs of around $700,000. Adjusted diluted EPS was $0.23, an increase of $0.05 versus the year ago period. Note that we calculated adjusted diluted EPS as adjusted EBITDA less interest income, interest expense and income taxes.

Year-to-date reported EPS was $0.06 versus $0.33 per share diluted in the prior year impacted by the noncash inventory step-up of $7.5 million, integration costs of $5.3 million and business combination costs of $26.9 million. Year-to-date adjusted EPS was $0.45, an increase of $0.06 versus the year ago period. Please refer to today's press release for an explanation and reconciliation of non-GAAP financial measures.

Moving on to the balance sheet and cash flows. Year-to-date, we paid down $21 million of term loans. And at quarter end, the outstanding term loan balance was $635.5 million. Given our cash balance and our outstanding term loan balance at the end of the second quarter, we are well on track to achieving our trailing 12-month net debt to adjusted EBITDA target of less than 3.7x by fiscal year-end 2020.

Given the unpredictable nature of the COVID-19 crisis, in March, the company began to increase finished goods inventory of some of its high-velocity products. In conjunction with this as well as for other working capital and general corporate purposes, the company drew down $25 million of the $75 million available under its revolving credit facility.

The company believes it is in a strong liquidity position. And at the end of March, the company's estimated cash balance was about $80 million. We anticipate the net impact of interest income and interest expense to be in the $33 million to $35 million range, an increase of $1 million versus our previous estimate due to the drawdown of the revolver.

Year-to-date depreciation and amortization was $7.1 million and capital expenditures were about $0.5 million. CapEx for fiscal 2020 is expected to be about $5 million, driven primarily by the ERP implementation.

Let me now provide you with a brief update on the Quest integration. The identified cost synergies of $20 million are on track and will begin to materially flow through the -- in fiscal year 2021. The major parts of the integration work stream are well underway and tracking with our plan.

Specifically, the supply chain team is working on an integrated approach to procurement, distribution and warehousing. Work and discussions with vendors are proceeding as planned. Additionally, the Quest and Atkins IT teams are working collaboratively on ERP implementation onto Quest's existing platform. To date, we're on schedule and haven't encountered any major obstacles. Despite the challenges of everyone working remotely, this is one of our top priorities and the integration steering committee is in constant communication to ensure that we're progressing on our time line.

I would now like to turn the call back to Joe for closing remarks.

Joseph E. Scalzo
CEO, President & Director

Thanks, Todd. As I previously stated, our first half of fiscal 2020 performance exceeded our expectations. And as we began the second half of the year, we were confident in our ability to achieve our previously communicated fiscal year 2020 outlook.

However, in March, retail foot traffic was volatile. Retail takeaway of our products was very strong in the first half of the month, followed by a notable slowdown thereafter, underscoring the unpredictable nature of the current consumer purchasing behavior due to COVID-19. The severity and duration of the current situation is uncertain and will likely continue during much of the second half of our fiscal 2020.

Therefore, given the rapidly evolving situation and the uncertainty related to the potential effects of the COVID-19 outbreak, we believe it is prudent to withdraw our previously communicated fiscal 2020 outlook. We will continue to monitor this situation, and we'll provide additional perspective on the year during our fiscal third quarter conference call in early July.

As I mentioned earlier, we're fortunate to participate in the category that has so many positive underlying growth characteristics. We believe that health and wellness will continue to be an important part of consumers' lives that the megatrends related to healthy snacking, convenience, meal replacement and on-the-go eating are long-term trends and that the low household penetration of this category will be a tailwind for our business for years to come. As such, we believe and have confidence in the long-term growth prospects of our brands and our business.

Finally, I want to extend my appreciation during these unique times. First, thank you to our employees in Denver, El Segundo and around the world. They have adjusted remarkably well to their new remote work environment. Despite juggling multiple new challenges at home, they have continued to collaborate well and execute superbly.

Second, I want to thank the leadership teams of Simply Good and Quest as well as our Board of Directors. With their continued guidance and leadership, I'm confident we will navigate the short-term challenges of this situation while positioning the business for continued long-term growth.
We appreciate everyone's interest in our company and are now available to take your questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Chris Growe with Stifel.

Christopher Robert Growe
Stifel, Nicolaus & Company, Incorporated, Research Division

Glad to hear you guys are healthy and hope it stays that way. I just thought I would ask you, first of all, as we think about this very loyal consumer base you have, just want to get a sense from you, Joe, if you can speak to it, I know it's very early, but how those kind of -- those consumers react in this environment.

And then I'm just curious how you get a sense of that. Is it through e-commerce trends? Sounds like those were strong through March. I'd say that's probably ticking up a bit. You've seen more activities through your website. Is there panel data? Just to get a sense of how these consumers are reacting now, if you have any sense of that and then how you're going to track that.

Joseph E. Scalzo
CEO, President & Director

Yes, Chris, good question. Again, very early, early stages of this. And I think right now, the big driver of this has been shopping behavior influence more than it's consumption behavior influence. So we have a pretty good view of what's going on from a shopping standpoint.

And as we said in our prepared comments, that March was really volatile. Through the early portion of March up to the weekend of the 20, 21st, we saw a significant spike in foot traffic and a significant uptick in our business in both our business as well as the category. The weekend of the 20th and 21st appear to be an inflection point in people's shopping behaviors, a dramatic falloff, double-digit falloff that has remained through -- that remained through the end of the month, and people's shopping patterns and going into stores.

We saw significant channel shifting. So e-commerce, online, pickup and delivery all accelerated. And then brick-and-mortar saw a significant falloff that's kind of remained until now. So most of it right now, I'd say, Chris, is shopping behavior driven more than it's consumption driven. And right now, we don't have a really good read on how the confinement is influencing how people consume the product.

I can give you my anecdotal experience. It's your home, the pantry is pretty close and I'm snacking more frequently. So I think from a snacking behavior, our category will do well once we get over some of the shopping behavior issues. I think obviously, the on-the-go aspect of this category is going to be a negative drag for us, offset somewhat by the snacking behavior increases.

But really early innings at this point. We don't know a whole lot about consumption behavior. And our view of how we are thinking about guidance had much to do with uncertainty around shopping behavior and the decisions people are making when they go in the store.

Christopher Robert Growe
Stifel, Nicolaus & Company, Incorporated, Research Division

And presumably, in any given period, there are volatile weeks and it's obviously very unique, no question. I've heard anecdotally as well, you've seen a pickup in sales in early April here, SNAP benefits. And again, there's another reload, if you will, of pantry loading. So has that picked up a bit? Have you seen that of late in most recent days and the week or any sense of that yet?

Joseph E. Scalzo
CEO, President & Director

Yes. Last few days have been much better than the previous 2 weeks, yes.

Christopher Robert Growe
Stifel, Nicolaus & Company, Incorporated, Research Division

Okay. That's what I assume. It's going to be jumping around, yes.

Joseph E. Scalzo
CEO, President & Director

Yes. And that's -- I think that was, in part, one of the reasons that we suspended guidance. Just the sheer level of volatility of what people are doing. I'd also add, I've been into a fair number of stores just watching shopping behavior. And actually, in the stores, the behavior is really interesting. So people are moving into the stores, quickly doing their shopping and for the most part, staying in center of store.

So shopping, shelf stable, I would say, basic staples and getting out of the store pretty quickly. So one of the behaviors we noticed early in this is, even when people are shopping, they're avoiding the perimeter, not always getting into the health and beauty section where a predominant number of our products are. And that had some impact to foot traffic in the aisle and then obviously, purchase behavior impact.

Christopher Robert Growe
Stifel, Nicolaus & Company, Incorporated, Research Division

Well, let's hope they go online to buy that -- the items they miss when they go through that section. So I appreciate your color there and I'll leave it on for the next question.

Operator

Our next question comes from Rob Dickerson with Jefferies.

Robert Frederick Dickerson
Jefferies LLC, Research Division

Those were all good questions by Mr. Growe. I guess it seems like what you're implying, obviously, or what you're saying is there's a ton of volatility. We all understand that. Just -- I've had a number of people asking me this morning. If Q2 came in so well though, right, I mean you came in with above 12% organic sales growth, and that's to the end of February and you also had 12% in the first half, then the first half at 12%, the guidance was still kind of high end to 4% to 6%. Obviously, everything has changed since then.

You put in -- you said in a statement though that tracking to still hit that guidance. Even though there's volatility in the back half, we don't really know what's going to happen in the back half. But at the same time, just to try to find -- keep it positive here. In Q2, if you put up 12%, I know there was a lot of concern, probably in the shake business, coming out of the February data trends, your quarterly growth through February. So there's no COVID prebuying impact, let's say, outside of the inventory build.

Net-net, it seems like that business actually did better on the bar side than you would have thought because the narrative kind of coming into today and through February was -- would seem like they're doing worse in shake. So there's more competition in shake. So we worry about shakes, what about shake, but you actually blew away expectations in the quarter, which would make me think that you actually were way ahead of expectations on bars. So I just -- as we think about the kind of the base business, right, at COVID, ex near-term behavior shift, can you just speak to that bar business and the shake business in Q2 pre-COVID?

Joseph E. Scalzo
CEO, President & Director

Yes, Rob. We felt -- as I said in the prepared comments, we felt very good about where we were through the midyear, obviously, pre COVID-19. Our -- both of our brands were at or exceeding expectations through the first half of the year. And we felt we were well positioned and very confident in our ability to deliver the year. So I think that's clear cut. So our decision going forward was much more to do about consumer shopping behavior over the month of March and the unpredictability of projecting that behavior going forward.

I would also add that the decision to suspend guidance was a more strategic decision and not just about the uncertainty and the magnitude of the duration of consumer shopping behavior, although that clearly was an important factor. It also reflected our current priorities, namely to protect our employees and our communities, ensure the robustness of our supply chain and provide service to our customers and consumers.

So for us, it was much more about doing the right thing for our business over these challenging times than it was just about the POS. But again, to reiterate, we felt really good about where we were. We felt very confident pre COVID-19 that we were going to be able to achieve our financial guidance.

And we felt good about the composition of our business. As you had mentioned, it had been driven through the first half of the year by strong bar and confection business. We had an RTD business that, for the first half of the year, was down a little bit. We felt good about the plans we had put into place in the second half of the year to get that moving into positive digits. And all in all, prior to the confinement, the consumer confinement, we're really confident that we have momentum on our side and we would close the second half of the year strongly.

Robert Frederick Dickerson
Jefferies LLC, Research Division

Okay, great. And then just one follow-up. Obviously, given everything that's occurring within consumer behavior and what you were saying about the perimeter of the store relative to the center of the store, as that relates to the marketing plans, promotional plans, how quickly do you think those plans could actually shift, their capital allocation could shift? Like I'm asking more about positioning online, right? It seems like good protein, shelf-stable products.

If you have the right placement, let's say online like on an Amazon, you could shift that very quickly relative to be shifting your product placement within the store. Is there ability to shift promotional spend or rather marketing spend or product placement spend on the page upfront to try to actually further increase and grow that online business given the current dynamic? That's it.

Joseph E. Scalzo
CEO, President & Director

So Rob, excellent question, already underway. So we've obviously seen, as I mentioned in the prepared comments, our e-commerce business, the post COVID-19 has accelerated as is other online delivery and pickup. So people are -- the best they can trying to avoid going in the stores and choosing other means of buying products. So we've seen that significant pickup in our business at other channels. That has led us to shift marketing spend already to promote our brands in those channels in order to keep some marketing pressure on the business. So good question.

Operator

Our next question comes from Alexia Howard with Bernstein.

Alexia Jane Burland Howard
Sanford C. Bernstein & Co., LLC., Research Division

Okay. Can I ask about the supply chain? And I noticed that you're using co-manufacturing for all of your supply. How much flexibility is there to ramp up production in those facilities? And also, how dedicated are the plants? I mean if one of them goes off-line because of COVID-19, could other plants pick up that capacity? I'm thinking about both bars and shakes. How much could you increase production on a steady state over the next few months while restaurant traffic is down?

Joseph E. Scalzo
CEO, President & Director

Yes. Good question, Alexia. First, the -- we've been in constant communication not only with our contract manufacturers, but communication upstream with our ingredient suppliers. Their situation -- they are well prepared for this. We've been in communication for over 5 weeks with these suppliers to understand what their plans are coming into the situation. And we're very confident in the robustness of our co-man, our third-party logistics provider and our ingredient suppliers.

And so far, there have been no impacts in their facilities, in production and our ability to meet demand. We are in the early stages of this stepped-up inventory on key SKUs. So we typically are running about, call it, 5 to 6 weeks of inventory in our own warehouses for key SKUs, about 35 of our top SKUs.

We started moving our inventory position closer to 8 weeks, and we'll be continuing to monitor that and continue to move that up. In some instances, we'll go to 10 weeks of inventory just to give ourselves some safety stock in the event of a spike in demand from a retail standpoint. We're able to get that because we've been in communication very early on in the process. We're able to get that available capacity pretty easily.

Again, I have complete confidence in their preparedness, in the robustness of the supply chain and our ability to flow goods, ingredients to co-man, to our third-party warehouse and to customers smoothly. So it's been our top priority. We're on it very early. And so far, our supply chain has responded wonderfully to the situation.

Alexia Jane Burland Howard
Sanford C. Bernstein & Co., LLC., Research Division

Great. And can I follow up with a question on promotional activity? I think you alluded to the idea that you might be pulling back on that going forward. When might that kick in? And do you anticipate an increase in realized pricing as a result over the next few months?

Joseph E. Scalzo
CEO, President & Director

Yes, terrific question. These are -- this is less about us pulling back. It's more about retailers changing their priorities. So as you can imagine, they're dealing with operational issues in their stores to keep the stores stocked and trying to keep social distancing, so the number of employees in the stores while consumers are shopping.

You're seeing those behaviors, a number of retailers announced the number of people that could be in the store at any one time. Some retailers are actually having traffic patterns in the store in order to minimize interaction between their employees and other shoppers.

So the retail operational impact of the situation is for some retailers to prioritize that over promotions and even shelf resets. So I would say it's too early for us to understand the impact of that. I think it's reasonable to believe some retailers will delay shelf reset, some retailers will push out promotion events to focus on in stock shelf and safety and security of shoppers.

Hard for us to know that. I do think it's reasonable to believe we are not going to be -- we probably aren't going to spend most of our trade spend that we had originally planned simply because customers will pull back events and then -- and those monies will go unused.

Operator

Our next question comes from Jason English with Goldman Sachs.

Jason M. English
Goldman Sachs Group Inc., Research Division

Sorry. I think in the response to last question, Joe was talking about taking inventory from $5 million to $6 million up to somewhere in the $8 million to $10 million range. It sounds like that could have a bit of an impact on cash balance just given the working capital needs. In that context, where do you think you'll land at net debt by the end of fiscal '20?

Todd E. Cunfer
Chief Financial Officer

Yes. So that impact in the short term probably has about a $10 million to $15 million cash flow impact. I'd like to think by the end of the fiscal year, we can wind a good chunk of that down. But obviously, it depends on how the COVID situation plays out over the next few months. Not a big impact on our goal of 3.75 or less on the leverage. Still confident we will be below that target as of now.

We obviously have some levers to pull from a cash flow perspective on -- Joe just mentioned trade. Obviously, with no travel going on, we'll have some G&A savings here in the back half of the year. So feel much more comfortable trying to predict cash flow and to some extent, EBITDA than sales just given what's going on in the marketplace right now, but very confident on the leverage.

Jason M. English
Goldman Sachs Group Inc., Research Division

So -- and that's kind of what I was going to back into. I was trying to reverse engineer effectively where you're still expecting EBITDA to be. And it sounds like your EBITDA expectations aren't changing materially, it's just the sales volatility. So in that context, I imagine you've mapped out sort of bull, bear base type scenarios or worst case, best case type scenarios and the various offsets that would allow you to manage cash and EBITDA in each. Do you feel like you've adequately stress-tested on both ends of the range? And do you feel confident in the leverage ratio on either end?

Todd E. Cunfer
Chief Financial Officer

We do. Obviously, whether this thing is going to last 3 months or longer, hard to tell. Hopefully, it's not -- hopefully, it will be even shorter than that. But we have -- we are in the process of doing a lot of stress tests right now. Again, we do have some levers to pull on the cost side. We'll be smart both from a short-term and a long-term perspective on those cost levers, but we should be very good on leverage.

Jason M. English
Goldman Sachs Group Inc., Research Division

Okay. And then the last question just on -- okay, go ahead. Sorry.

Joseph E. Scalzo
CEO, President & Director

Well, Jason, one other point. As you think about consumers sheltering at home and the influence of marketing pressure, you really start challenging how much marketing dollars you should be spending and how truly effective they are. So we'll be looking at our marketing investment levels. I totally expect us to see a falloff in return on investment.

And I would expect us to pull back on marketing, actually keeping some powder dry from when people are out and about again. So that will be another lever that we will pull at on a -- just based on ROI. We're seeing we're not getting a return for that spending. We're going to pull back. We'll keep our powder dry, and that provides us even more financial flexibility going forward.

But I think you accurately reflected our sentiment. A lot of volatility on shopping, which drives some volatility on revenue, but we have a fair amount of dry powder from an EBITDA standpoint.

Jason M. English
Goldman Sachs Group Inc., Research Division

Yes, that makes a lot of sense. And as you mentioned, as people shelter at home, marketing may be less responsive. Behavior may also be different, too. Can you remind us what percentage of your consumption occasions you believe fall in the meal replacement versus snacks?

Joseph E. Scalzo
CEO, President & Director

Yes. I don't think we accurately know that because we don't have that data. I don't completely understand how much is meal replacement versus snacking. There is a fair portion of our business that's snacking only. And so I think we're going to see, again, as I mentioned, an increase in snacking behavior and probably fewer occasions on meal replacement.

The other thing to think through, which is -- I think is really important is the consumer benefit that we offer in our brands, weight management and active nutrition, probably a little less relevant from a consumer standpoint during times of confinement. That said, I think healthy snacking will continue to be relevant to folks as they're in their homes. But I think the weight management benefit and kind of active nutrition when we just -- those are less relevant to us. That has some impact on consumption going forward.

That said, look, we're really confident in our business after we emerge out of this. We're going to make the right decisions in the short term for our business, for our employees and for our communities. And then we feel really confident in our ability once this crisis ends and our business will be right back on track.

Operator

Our next question comes from John Baumgartner with Wells Fargo.

John Joseph Baumgartner
Wells Fargo Securities, LLC, Research Division

I guess, first off, Joe, looking at the Quest business, obviously, the specialty channel has been weak already. And now with the store closures, that number falls harder as you alluded. What are you seeing in terms of the pickup in e-commerce maybe being able to offset those declines? Any data you can share thus far about any channel shift?

Joseph E. Scalzo
CEO, President & Director

Yes. Just on Quest or the entire company?

John Joseph Baumgartner
Wells Fargo Securities, LLC, Research Division

Quest.

Joseph E. Scalzo
CEO, President & Director

Quest. As you just step back, this has been going on for a number of years. Quest's growth in food, drug, mass and then online has more than offset the declines in the specialty channel. I think with this crisis, specialty channel will accelerate.

The good news there is, for us, is that it's, as a percent of our total business, declined pretty significantly versus the last few years. So we're reasonably comfortable that channel shifting is going to continue. This may accelerate a little bit. But we're in a good position in those other channels to pick up those fast.

John Joseph Baumgartner
Wells Fargo Securities, LLC, Research Division

Okay, great. And then to follow up, one of the pushbacks that we get on the investment case for Simple is a degree of uncertainty as to how long the Atkins brand can grow, how long the Rob Lowe messaging can work. But when you look at COVID and you hear about the more severe cases being associated with obesity, diabetes, it would seem to reinforce the low-sugar, low-carb messaging.

And as you referenced the R&D pipeline in your comments, I'm curious, as you sit back, do you think COVID opens new opportunities where you expand the low-carb portfolio into new categories? Do you have any household panel data or any anecdotes about health scares being positive for low-carb demand? Just how are you thinking about things on the other side of COVID from a demand perspective maybe?

Joseph E. Scalzo
CEO, President & Director

Yes. Great question. And the one observation, the low-carb diet -- high-protein, low-carb diet is beneficial from a stress standpoint, beneficial from an immunity standpoint. So I think people that -- I think all those things that have been driving our business from a megatrend standpoint around health and wellness, obesity, diabetes will continue to be relevant and in times when people are concerned about their health will continue to be relevant. So we feel really good about how our brands are positioned from a health and wellness standpoint.

For those that kind of push back on how long can we grow this business, I'd just point out that it's been 11 years now, compound annual growth rate of 13% on Atkins. The category is still massively underpenetrated, a lot of opportunity, a lot of white space from a consumer target standpoint. So we're, again, really confident that the megatrends, once we come out of this crisis, will continue, and our ability to continue to capture those consumers open to low-carb and protein-rich will continue to be there for us.

And it's backed by science. It is a trend that's continued for a lot of years, and we're reasonably comfortable in our ability to continue to grow household penetration. And frankly, this will just teach us that health and wellness is important to us. Good immunity is important to us, so -- to people, and that's going to continue to be beneficial.

Operator

Our next question comes from Faiza Alwy with Deutsche Bank.

Faiza Alwy
Deutsche Bank AG, Research Division

So I just wanted to -- you touched on this a little bit during the call, but I wanted to talk more about what you're seeing from various category point of view. We don't have full March data at this point, and we kind of saw the uptake across the board through data that we do have through March 21.

But I was wondering if you could talk a little bit more about which categories are you seeing the most volatility versus the most slowdowns. And then which categories do you think are most easily transferable to e-commerce?

Joseph E. Scalzo
CEO, President & Director

So I understand, what -- when you talk about categories, what are you referring to? Are you referring to...

Faiza Alwy
Deutsche Bank AG, Research Division

Yes. I just mean sort of shakes, bars.

Joseph E. Scalzo
CEO, President & Director

Forms? Okay.

Faiza Alwy
Deutsche Bank AG, Research Division

Yes, yes, yes.

Joseph E. Scalzo
CEO, President & Director

Okay. Yes. The reason I asked that is we don't consider those categories, right? There are -- we look at the category organization around consumer need state. So broadly, we think about it as nutritious snacking, sports, active, performance and kind of weight management. Those are the 3 segments that we see. As we move -- as shopping behavior after the 20th and 21st declined kind of double digits, the category broadly moved with the foot traffic. So that's what we experienced after the 20, 21st.

Within those segments of the category, the category segments that are in the health and beauty aisle, namely sports and active and weight management, saw more falloff than nutritious snacking, which is in center of store. But we believe that -- again, that category, center of store, that's where Kind, that's where Clif is, right, they were in the center of the shopping area with shoppers coming in, getting in the center of store and getting out of the store whereas pharmacy, HABA, we saw just less foot traffic.

I think that's the phenomenon that's going on, at least was going on towards the end of March as we moved into April. Really, purchasing behaviors driven by shopping behavior. And the reason we're pretty confident that, that is the case, if you look at both of our e-commerce businesses, spiked and has stayed strong since the crisis started. So we saw a significant uptick in our Quest business.

By the way, Amazon is its largest customer, 15% of their business comes from Amazon. They saw a significant spike in the business on Amazon across all their products and it's continued to be strong. And again, on top of kind of 60% growth on our Atkins business, on online, we spiked above that after the restrictions started to take place.

So again, strong growth in the business where shopping is clearly not the issue, right? So I think right now, we're seeing purchase -- less about the form, almost less about the consumer benefit, much more about where it is in the store and how people are shopping.

Todd E. Cunfer
Chief Financial Officer

And online -- yes, online, our business is strong across the board. So every form, including shake, we are seeing significant growth. So not impacted by form.

Faiza Alwy
Deutsche Bank AG, Research Division

Got it. Just one quick follow-up. Just going back to the supply chain. I know historically, you've talked about how you're kind of -- as you talk to your co-packers, you're kind of putting in certain orders relative to where you expect sales will be. And to the extent that you diverge from that, there can be incremental costs associated with that. Sort of is there any framing that you can give us where, I don't know, sales are up x percent like that might have -- what the cost impact of that might be?

Joseph E. Scalzo
CEO, President & Director

So far, we've not seen a cost impact. We're very early in the stages. Just to give you an example, we went to travel restrictions at the very beginning of March. We also went to remote operations as a company a few days after that. So we're early on this. We're early in communicating with our suppliers, and we were early in increasing orders on key items. So we grabbed a lot of available capacity early in the process, not with really a significant -- no significant uptick in costs.

We've seen a little bit of extra cost in our warehouse operations mainly driven by making sure that our -- the employees in those operations continue to come to work. There's a lot of pressure in the area for other distribution companies looking to try to get employees to come into their places. So we've been paying bonuses that have been helpful in us making sure that we have the employees necessary to get products out the door.

But Todd, do you have any other comments? We have not experienced any uptick at all in cost of goods.

Todd E. Cunfer
Chief Financial Officer

Yes, very nominal at this point. Look, as we pointed out on the call, we are looking at this very strategically. If we have to pay a little bit more in the future to make sure we have products in our warehouse and our customer shelves, we're more than willing to do that. We have not seen that yet. So hopefully, that will not be traded over the next couple of months. But so far, very, very little.

Joseph E. Scalzo
CEO, President & Director

Yes. I would remind you, too, a year ago, we saw a pretty significant uptick in bar demand. We were able to get that extra supply. We really didn't have any increase in cost in order to get that extra supply. So the good news are that we're a big manufacturer, right? We have large volume and we offer a long run when a contract manufacturer makes our product. So we're somebody that they will actually want to have more business with. So if we're getting our demands in, our requirements in pretty early, they're happy to meet those needs if they've got surplus capacity. And so far, that capacity is available.

Operator

At this time, I would like to turn the call back over to Mr. Joe Scalzo for closing comments.

Joseph E. Scalzo
CEO, President & Director

Yes. Thanks again for your participation on our call today. We hope you'll continue to remain safe, and we look forward to updating you on our third quarter results in July. So I hope you all have a good day. Take care.

Operator
Thank you. This does conclude today's teleconference. You may disconnect your lines at this time, and thank you for your participation.