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CPB - Q1 2017 Campbell Soup Co Earnings Call

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OVERVIEW:

Co. reported 1Q17 as-reported net sales of $2.202b and adjusted EPS of $1.00. Expects FY17 sales to grow by zero to 1%.

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PRESENTATION

Operator

Good day, ladies and gentlemen and welcome to the Campbell Soup Company first-quarter fiscal 2017 earnings call. (Operator Instructions). As a reminder, this conference is being recorded. I will now turn the call over to your host, Ken Gosnell. Please go ahead.

Ken Gosnell - *Campbell Soup Company - IR*

Thank you, Stephanie. Good morning, everyone. Welcome to the first-quarter earnings call for Campbell Soup's fiscal 2017. With me here in New Jersey are Denise Morrison, President and CEO and Anthony DiSilvestro, CFO.

As usual, we've created slides to accompany our earnings presentation. You will find the slides posted on our website this morning at investor.campbellsoupcompany.com. This call is open to the media who participate in a listen-only mode. 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 2 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 our appendix. With that, let me turn the call over to Denise.

Denise Morrison - *Campbell Soup Company - President & CEO*

Thank you, Ken. Good morning, everyone and welcome to our first-quarter fiscal 2017 earnings call. I look forward to reviewing and discussing our results with you this morning. I will start with a high-level overview and then provide my perspective on each division's performance. Anthony will follow with a detailed financial review. But, first, let me start with some context about the external environment.

In the United States, the length and tenor of the Presidential campaign was unprecedented. There are many important issues the new administration will address that will impact the food industry, including tax policy, regulation, trade agreements, new leadership of the USDA and FDA, as well as the upcoming Farm Bill. Meanwhile, the seismic shifts that I've outlined in our previous discussions continue to impact our industry, including a shrinking middle class, major demographic shifts, changing consumer preferences for food with an emphasis on health and well-being and the continued evolution of digital media in e-commerce channels.

Across the industry, top-line growth remains sluggish, particularly in center-store categories. Simultaneously, food deflation is pressuring both top and bottom lines and limiting pricing opportunities. This is driving a hypercompetitive environment for marketshare, along with a continued focus on cost-savings measures to deliver earnings. As we've seen, many food companies have reported flat to declining organic sales in their most recent quarters and that pressure is not limited to manufacturers. Retailers too are taking actions to reposition themselves for growth through consolidation, management changes and increased investments in e-commerce.

With that as context, let me turn to our first-quarter results. Relative to our expectations, I'm encouraged by our overall performance. We are executing against the plans we described in September. We expanded gross margin and delivered adjusted EBIT and EPS growth cycling a strong year-ago quarter. Organic sales decreased 1% in the quarter driven by declines in our Campbell Fresh business, which we expected and which we communicated in early September.

Additionally, we remain on track to achieve our $300 million cost-savings goal by the end of fiscal 2018. Importantly, we are reinvesting across the business to drive top-line growth, including increased advertising support of Chunky soup and Pepperidge Farm Goldfish crackers, expanding our digital and e-commerce capabilities and funding long-term innovation initiatives. Given our start and our expectations for the remainder of the year, we reaffirmed our full-year guidance this morning.

Let me now offer my perspective on the performance of each of our three divisions. Let's start with Americas Simple Meals and Beverages, our largest division. As a reminder, this division's portfolio role is to deliver moderate growth consistent with the categories in which we operate and to expand margins. Our sales were mixed this quarter; however, the division delivered strong operating earnings and I continue to be pleased with the gross margin expansion driven by the improved performance of our supply chain.

I'm optimistic about the start to the soup season. US soup sales were comparable to a year ago, which reflects an improvement in trend. Sales of RTS soup and broth increased while condensed sales declined slightly. Campbell's consumption outpaced the category largely driven by the performance of the RTS portfolio. Chunky led the way as we dramatically improved our execution. We have corrected the labeling misstep from last year, began airing a new integrated NFL-themed campaign and introduced new stackable cans that are driving increased merchandising opportunities at major customers. It's also important to note that we are cycling net price realization gains that have held in the marketplace. All of this is resulting in improved performance.

Looking ahead on soup, we continue to expect to deliver modest growth for the full year behind improved performance in Chunky, strong holiday plans for both condensed soups and broth and the upcoming launch of our Well Yes! RTS soup line. This new clean-label soup is made with nutritious, recognizable and desirable ingredients and will begin shipping in December. The response from retailers has been overwhelmingly positive and we have a robust integrated marketing plan to fuel the launch.

In other parts of the portfolio, we drove double-digit sales gains in Plum with growth in the core pouch portfolio, as well as the introduction of Plum organic infant formula. However, our shelf-stable beverage portfolio remains challenged, specifically V8 V-Fusion and V8 Splash. On the positive side, V8 Plus Energy continues to perform well and we are seeing improving trends in V8 Red following our decision to increase advertising support. As we've previously stated, we do not expect V8 to grow in fiscal 2017. While we have more work ahead, I'm encouraged by the start to the year, especially in US soup and am confident in our plans. In short, the Americas Simple Meals and Beverage division continues to deliver against its portfolio roll.

Now let's turn to Global Biscuits and Snacks. As a reminder, this division includes our Pepperidge Farm, Arnott's and Kelsen businesses and its portfolio role is to expand in developing markets while improving margins. Sales growth in the quarter was driven by gains in Pepperidge Farm on strong performance of Goldfish crackers and Milano cookies. Operating earnings decreased 2% as we invested in increased advertising. In the US, the team delivered sales and share gains in both Goldfish crackers and Milano cookies. Goldfish benefited from increased advertising investment, channel gains leveraging multiple pack sizes and innovative new products.

Our efforts to expand our health and well-being offerings are performing well. Both multigrain Goldfish and Goldfish made with organic wheat contributed to the sales gains. At Investor Day, we shared our plans to focus on building brand equity and increasing our marketing investments in our cookie portfolio and we are beginning to see results. Effective new advertising and flavor innovation drove sales and consumption gains for Milano cookies.

Sales in fresh bakery declined in the quarter in the face of intensified competitive activity and we have taken steps to address this with improved innovation and quality on our Pepperidge Farm swirl bread. Looking ahead in the US, we are focused on driving growth in Goldfish, increase innovation in cookies, including the relaunch of our Pepperidge Farm American Classic cookie line and the new fresh bakery quality improvements to take hold in the market. Additionally, expanding both Tim Tam distribution and our West Coast Bakery operations remain top priorities.

Turning to other parts of the world, in Southeast Asia, we maintained our momentum in Malaysia behind strong sales of sauces, but sales in Indonesia were negatively impacted by aggressive competitive activities in the general trade. In Australia, we delivered sales growth in biscuits driven by strong performance in our chocolate biscuit portfolio despite declines in Shapes crackers. We've taken action to address Shapes' performance and we are beginning to see signs of improvement. Looking ahead, we are focused on delivering consumer-driven product innovation in Tim Tam chocolate biscuits with a new range of seasonal varieties. We also expect our Shapes performance to accelerate behind our new marketing campaign highlighting both new and original recipes.

Finally, I will discuss our Campbell Fresh division. The CPG portion of C-Fresh includes Bolthouse Farms beverages and salad dressings, Garden Fresh Gourmet salsa, hummus and chips and our refrigerated soups. The Farms portion of the portfolio includes carrot and natural ingredients. As a reminder, C-Fresh is a strategically important business to Campbell. It addresses a key consumer trend towards fresh foods and health and well-being and its brands resonate with millennial consumers.

The business performed as expected to the start of the year as we are continuing to execute the recovery plans related to the voluntary product recall of Bolthouse Farms Protein PLUS drinks and the carrot quality and execution issues we experienced in fiscal 2016.

As we discussed on our fourth-quarter call, we installed a new leadership team and have increased the integration and oversight of the Campbell Fresh supply chain. There have been other changes since then. As previously announced, Jeff Dunn left the Company in October and we named Ed Carolan President of Campbell Fresh. Ed has been with Campbell since 2001 in a variety of leadership roles, including the President of US Retail Soup, Sauce and Beverages. Most recently, he was President of Integrated Global Services where he created and implemented a business model to build new capabilities and deliver faster, more efficient services. Ed and the Campbell Fresh leadership team are focused on returning the business to growth starting in the second half of the year.

Now let's take a closer look at what drove the declines in the first quarter and our continued recovery from the Protein PLUS beverage recall and the carrot quality and execution issues. First, beverages. As we discussed in the fourth quarter, we identified and corrected the primary cause of last year's Protein PLUS recall and implemented enhanced processes to improve quality standards. While we are making progress, we still continue to expect that Protein PLUS supply will be negatively impacted through the end of the calendar year 2016.

Our objective is to meet demand through a combination of improved run rates, increased in-house capacity and adding co-packers. Following the recall, we have been steadily increasing production capacity while also working hard to improve our customer service levels. We've made solid progress in the first quarter in improving our run times. To increase capacity, we are in the process of installing a new beverage line in our Bakersfield plant, which we expect will be commissioned by the end of the calendar year.

Performance was mixed in other parts of the Campbell Fresh CPG portfolio. In the ultra-premium category, sales growth of 1915 by Bolthouse Farms cold-pressed juice was driven by increased distribution and share gains. Sales of Bolthouse Farms salad dressing also continued to grow.

Turning to Garden Fresh Gourmet, sales of hummus and salsa declined in the quarter. The team is focused on further product differentiation through regional flavors as we continue to execute our plans to expand Garden Fresh Gourmet beyond the Midwest.

Another bright spot was the performance of retail fresh soup. Sales increased in the quarter with the introduction of new branded Garden Fresh Gourmet soup, which has been well-received by customers.

Now, turning to the Farms business. We are stabilizing our carrot operations and improved quality. The team remains focused on service levels and working to regain lost customers over time. We expect the recovery to continue throughout the year as we demonstrate to customers our ability to deliver sustained quality. While we are making progress, we clearly have more work ahead to get this division back to performing in line with its portfolio role of full-force growth. For the full year, we continue to expect Campbell Fresh sales to grow in the low single digits.

Before closing, I want to touch upon our efforts to create new models of innovation to define the future of real food and drive growth in new ways for Campbell. As I discussed with you in the past, new models continue to emerge and new startup companies are being fueled by an influx of venture capital. Campbell is now more fully participating in venture opportunities through Acre Venture Partners, an independently managed $125 million venture fund where Campbell is the sole limited partner. Acre is investing in a number of promising and innovative food and food-related companies. At the end of the first quarter of fiscal 2017, we funded $41 million out of our $125 million commitment.

Another example of how we are investing our cost savings into long-term innovation is a new startup company called Habit, a business backed by Campbell and led by Neil Grimmer, the co-founder of Plum. Positioned at the intersection of health and well-being, technology and food, Habit will leverage individualized data to create personalized nutrition and meal plans for people who want to harness the transformative power of food to improve their lives. Stay tuned; we will be sharing additional details about Habit at CAGNY in February.

Finally, we continue to build a robust pipeline of internal innovation focused on the large and growing consumer platforms of health and well-being and snacking and we are also continuing to pursue smart external development to diversify our portfolio in these faster-growing spaces.

Given our expectations and plans for the year, we are satisfied with our performance to start the year and confident in our plans for fiscal 2017. We continue to take action to strengthen our core business while also driving growth for the long term through our purpose, growth agenda and strategic imperatives -- one, real food transparency and sustainability; two, digital and e-commerce; three, health and well-being; and four, snacking, all while continuing to build a high-performance organization focused on talent and culture and transforming the way we work.

In summary, these unpredictable and uncertain times in which we live are marked by sweeping changes across the food industry landscape. At Campbell, we are guided by our purpose, real food that matters for life's moments and focused on meeting the needs of our consumers, helping our customers grow their business and increasing shareholder value for our investors.

Now, let me turn the call over to our Chief Financial Officer, Anthony DiSilvestro, for an overview of our financial results.

Anthony DiSilvestro - *Campbell Soup Company - SVP & CFO*

Thanks, Denise and good morning. Before reviewing our results, I wanted to give you my perspective on the quarter and outlook for the balance of the year. As Denise stated, organic sales, while down, were in line with our expectations. We anticipated our first-quarter sales to be under some pressure as we begin to recover from the capacity constraints on Bolthouse Farms beverages and stabilized the carrot business. Overall, US soup sales were flat and we were pleased with the performance of Chunky, which is responding well to our marketing programs.

Our adjusted gross margin expanded 120 basis points as our supply chain performed well and delivered significant productivity improvements while cost inflation remained moderate. We continue to make strong progress against our cost-savings target of $300 million by the end of fiscal 2018, delivering about $35 million of incremental savings in the first quarter, bringing the program-to-date total to $250 million.

We adopted a new accounting standard that impacts the recognition of excess tax benefit on stock-based compensation. The tax rate for the quarter reflected a $6 million tax benefit related to the change. We are pleased with our first-quarter start and are reaffirming our fiscal 2017 guidance that we announced in September. Now, I will review our results in more detail.

On an as-reported basis, net sales of $2.202 billion were comparable to the prior year. Excluding the favorable impact of currency translation, organic net sales declined 1% driven by declines in Campbell Fresh partly offset by gains in Global Biscuits and Snacks. Adjusted EBIT increased 1% to $486 million as the benefits of a higher adjusted gross margin percentage and lower administrative expenses were partly offset by increased marketing and selling expenses. Adjusted EPS increased 5% or $0.05 to $1 per share.

Breaking down our sales performance for the quarter, organic sales declined 1% driven by a 1 point decline from volume and mix. Net price realization, both pricing and promotion, was stable for the quarter compared to last year. Offsetting the organic sales decline was a 1 point favorable impact from currency translation, principally the Australian dollar, resulting in net sales being comparable to the prior year.

Our adjusted gross margin increased 120 basis points in the quarter. First, cost inflation and other factors had a negative impact of 70 basis points. Cost inflation on a rate basis increased by about 1.5%. In addition, cost of products sold reflects higher cost in our C-Fresh division. These negative drivers were partly offset by the benefits from our cost-savings initiatives.

Reflecting the increased promotional spending in Pepperidge Farm to support Goldfish and Fresh Bakery and in Indonesia to remain competitive, promotional spending had a 20 basis point negative impact, which was offset by list pricing gains of 20 basis points primarily from our retail business in Canada. Mix was slightly favorable adding 20 basis points reflecting the sales decline in our lower margin C-Fresh segment.

Lastly, our supply chain productivity programs, which are incremental to our $300 million cost-savings program, contributed 170 basis points of margin improvement in the quarter. All in, our gross margin percentage increased 120 basis points to 39.1%.

Adjusted marketing and selling expenses increased 11% in the quarter primarily due to higher advertising expenses as we reinvest in our key brands, as well as higher selling expenses due largely to timing. The increase in advertising was primarily driven by increased support on Chunky soup behind the new advertising campaign and on Pepperidge Farm Goldfish crackers. Adjusted administrative expenses declined 4% reflecting the benefit of our cost-savings initiative partly offset by inflation and investments we are making in longer-term innovation.

For additional perspective on our performance, this chart breaks down our EPS change between our operating performance and below-the-line items. Adjusted EPS increased $0.05 from $0.95 in the prior year to $1 per share in the current quarter. On a currency-neutral basis, increases in adjusted EBIT had a $0.01 benefit on EPS. Share repurchases lowered our share also adding a penny benefit.

Our adjusted tax rate for the quarter decreased by 2 points to 32.1%. The decrease in the tax rate contributed $0.03 to EPS growth, including the benefit from the change in accounting for stock-based compensation. Interest was comparable to the prior year as the impact of higher interest rates was offset by a lower debt level. While slightly favorable, the currency translation benefit rounds to no impact completing the bridge to $1 per share.

Now turning to our segment results, in Americas Simple Meals and Beverages, organic sales were comparable to the prior year at $1.297 billion as double-digit gains in Plum products were offset by declines in V8 beverages. Sales of US Soups were comparable to the prior year as gains in ready-to-serve soups, primarily Chunky, benefiting from increased marketing support and in broth were offset by modest declines in condensed soups. Delivering against this portfolio role, operating earnings increased 6% reflecting a higher gross margin percentage driven primarily by productivity improvements partly offset by increased marketing and selling expenses.

Here's a look at US wet soup category performance and our share results as measured by IRI. For the 52-week period ending October 30, 2016, the category as a whole declined by 2.3%. Our sales in measured channels declined 2.7% primarily driven by weakness in ready-to-serve partly have set by strength in broth. Campbell had a 59% marketshare for the 52-week period declining 20 basis points. Private label grew share by 30 basis points finishing at 13%. All other branded players collectively had a share of 28%, down 10 basis points.

In Global Biscuits and Snacks, organic sales increased 1% driven by gains in Pepperidge Farm on strong growth in Goldfish crackers, which benefited from increased advertising and promotional activity, as well as new items. Operating earnings declined 2% to $112 million driven primarily by higher advertising expenses partly offset by the favorable impact of currency translation. The segment gross margin percentage was comparable to last year as the impact of cost inflation and increased promotional spending was partly offset by productivity improvements.

In the Campbell Fresh segment, as expected, organic sales declined 6% reflecting declines in Bolthouse Farms beverages due to capacity constraints following the recall of Protein PLUS drinks in June 2016, as well as declines in carrot and softness in Garden Fresh Gourmet partly offset by gains in refrigerated soups. Lower carrot sales reflect the marketshare impact of quality and execution issues from last fiscal year.

Operating earnings declined by $17 million to $1 million reflecting higher carrot costs, which were associated with lower volumes and improved quality, the cost impact of lower beverage operating efficiency and the impact of lower sales. As we have previously stated, we expect a return to growth in C-Fresh starting in the second half of the fiscal year.

Cash flow from operations was $221 million, $23 million lower than the prior year. The decline reflects lower cash earnings and higher working capital requirements. Capital expenditures declined $23 million to $48 million. We continue to forecast CapEx of approximately $350 million for fiscal 2017. We've paid dividends totaling 100 million reflecting a quarterly dividend rate of $0.312 per share. In September, we announced an increase in the quarterly dividend rate to $0.35 per share, which, from a cash flow perspective, will be reflected in the second quarter.

In aggregate, we repurchased $112 million of shares, $100 million of which were under our strategic share repurchase program as we've increased our level of share repurchases. The balance of the repurchases were made to offset dilution from equity-based compensation. Net debt declined by $522 million compared to year-ago levels as cash from operations over the last four quarters was well in excess of capital expenditures, dividends and share repurchases.

Now I will review our 2017 guidance, which remains unchanged from what we announced in September. The Company expects sales to grow by 0% to 1%, adjusted EBIT to grow by 1% to 4% and adjusted EPS to grow by 2% to 5% or $3.00 to $3.09 per share. This guidance assumes, based on current exchange rates, that the impact from currency translation will be nominal. We expect gross margin to improve slightly for the year. While inflation on core ingredients and packaging has moderated, we expect inflation and cost of products sold of approximately 2%.

On our cost-savings program, we are ahead of our expectations having generated $35 million in the first quarter against our full-year estimate of $50 million. It's early in the year, so before making any changes to the savings estimate or full-year guidance, we'd like to see how our cost savings develop in the second quarter, assess the performance of the business, especially C-Fresh and evaluate potential reinvestment opportunities.

Our EPS guidance reflects an effective tax rate of approximately 32%, which includes the change in accounting and from the favorable impact of anticipated share repurchases over the course of the year. That concludes my remarks and now I will turn it back to Ken for Q&A.

Ken Gosnell - *Campbell Soup Company - IR*

Thanks, Anthony. We will now start our Q&A session. Since we have limited time, out of fairness to the other callers, please ask only one question at a time. Operator.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). Andrew Lazar, Barclays.

Andrew Lazar - *Barclays Capital - Analyst*

Good morning, everybody. Quick question on gross margin, which I think did come in quite a bit better than at least we had forecasted in the quarter. Still looking for moderate gross margin expansion for the full year. Given the rate of expansion you saw in 1Q, Anthony, I guess, what, at this stage, would cause that rate of expansion in the next couple of quarters to moderate a bit on a year-over-year basis? Did the P&L impact of the incremental cost saves split out among cost of products and SG&A roughly evenly, as I think you may have mentioned previously? Thank you.

Anthony DiSilvestro - *Campbell Soup Company - SVP & CFO*

A couple points. Of the $35 million, the majority of those cost savings in Q1 were within the supply chain; therefore they are on the cost of products sold line and the balance I would say is primarily within administrative expenses. We are certainly pleased with the gross margin performance in the quarter. We are a little bit ahead of our expectations and there's a couple of things we see unfolding in the balance of the year. We are benefiting on our core ingredients and packaging items, a little bit of deflation in the first quarter and we see that swinging to more neutral to slightly positive in the back half. And the categories to think about are -- is primarily three big ones. One is steel cans; the other is dairy products. We are currently lapping the impact of avian flu and wheat prices, which are currently in deflation and we expect that also to be more neutral. So we see a little bit of a swing front half to back half.

The other thing we anticipate as we unfold some of our real food investments, we are removing artificial colors and ingredients. We are removing BPA from our can liners and those costs are going to accelerate as we go through the second half of the year relative to the first half. So we see a couple of headwinds ahead. Again, we feel good about our first quarter. We will see how the second quarter unfolds and make an assessment then.

Andrew Lazar - *Barclays Capital - Analyst*

Thank you so much.

Operator

Matthew Grainger, Morgan Stanley.

Matthew Grainger - *Morgan Stanley - Analyst*

Happy Thanksgiving. Denise, I guess I wanted to come back to Global Biscuits and ask a little bit more specifically about the performance of Pepperidge in the US, which, based on scanner data, seems to be carrying some pretty significant momentum at the moment. Could you just elaborate a little bit on how that business performed in the quarter relative to the overall segment growth and just tactically what's going on that's enabling you to gain so much marketshare at the moment, how sustainable that is and the way you are phasing investment against those products at the moment?

Denise Morrison - *Campbell Soup Company - President & CEO*

Yes, we definitely invested in Pepperidge Farm this quarter, particularly in Goldfish and Milano cookies and both of them have had really nice consumption gains relative to the category. And we are going to continue to invest in Pepperidge Farm. One of the places where we have momentum brewing is in the American Classic cookie. We are going to be relaunching a new product there. So we believe that on top of the Milano momentum, we can fuel it with American Classic. Now the one place where we are experiencing declines is in Fresh Bakery as the competitive environment has heated up, but we will be -- we've introduced a new improved swirl bread and we will be investing against that.

So only other two things are the expansion of Tim Tam in the United States, which we are really excited about, and that campaign starts in January. We are building distribution as we speak. And then moving -- after the successful expansion of our bakery business in the Arizona market, we are expanding into a couple other West markets. So lots of activity on Pepperidge Farm.

Matthew Grainger - *Morgan Stanley - Analyst*

Okay. From a phasing perspective as some of the A&C investment shifts into Well Yes! and maybe a bit over toward Simple Meals in Q2, should we see the balance shift a bit between the segments? Is this more of a concentrated spike in some of the reinvestment going against the Pepperidge business?

Denise Morrison - *Campbell Soup Company - President & CEO*

I would say that we are being very consistent with our plans and we definitely prioritize our investments. I think where you will see a shift is more off of smaller niche brands back more onto the core brands, which we are including the launch of Well Yes! as a key RTS initiative, as well as the investment in Pepperidge Farm.

Matthew Grainger - *Morgan Stanley - Analyst*

Okay, great. Thanks, Denise.

Operator

Bryan Spillane, BofA.

Bryan Spillane - *Bank of America Merrill Lynch - Analyst*

Good morning, everyone. Just a question about the US Soups business and just -- in the quarter, sales were comparable and I think in the Nielsen data at least it looks like, in the 12-week period, sales were down. So is there any mismatch in terms of timing of shipments versus consumption? And then I guess related to that, as we are thinking about 2Q, will Well Yes! ship in Q2 or does it ship in 3Q?

Denise Morrison - *Campbell Soup Company - President & CEO*

Okay, I will take the first part. I guess the best way to explain it is we started our marketing this year in October, so on US Soups, we definitely saw a tick-up in consumption and in sales at the latter part of the quarter and expect that momentum to continue. Inventory this quarter was very comparable to year ago and although retailers are still tight on inventory, it wasn't a meaningful or material shift. So I think the main issues with US soup are we saw Chunky rebound particularly towards the latter part of the quarter against the marketing effort. We've been able to hold our price realization on Chunky and again, we are cycling some poor execution issues in the prior year. So we are very happy to see the response of Chunky.

Broth has been under a little bit of pressure, but we have big holiday plans and so we are very confident in our holiday plans on broth. So I think it is shaping up to be a season very much as we expected. Well Yes! starts shipping in December and so we have a huge -- the customer acceptance has been great and so we have a huge Campbell launch on this one. So very excited about that.

Bryan Spillane - *Bank of America Merrill Lynch - Analyst*

Okay. So it sounds like there isn't a meaningful -- assuming that you get consumer pullthrough in 2Q, there's no meaningful discrepancy between takeaway and shipments as we are modeling forward?

Denise Morrison - *Campbell Soup Company - President & CEO*

That is correct.

Bryan Spillane - *Bank of America Merrill Lynch - Analyst*

Okay. Great. All right, thank you. Happy Thanksgiving, everyone.

Operator

Ken Goldman, JPMorgan.

Ken Goldman - *JPMorgan Chase - Analyst*

Anthony, I just wanted to follow up on the guidance for cost savings for the year. Correct me if I'm wrong, I think the guidance was $50 million and you did $35 million in the first quarter. I know it's early; I know you want to see how the year progresses, but I'm curious what would hold the savings back from surpassing that $50 million? You mentioned reinvestments. I thought the $50 million was a gross number prior to reinvestments, but again just trying to get a little bit of color there and see maybe where some headwinds are that I'm not maybe visualizing right now.

Anthony DiSilvestro - *Campbell Soup Company - SVP & CFO*

No, I think you've got it right. The $50 million was a gross target. Perhaps we were a little conservative. We did achieve $35 million of that in the first quarter. So we do want to see another quarter unfold, making sure it's not just timing, but we feel really good about where we are and if all goes well, we could have a little more savings available to us.

The other thing we want some time is to see how the other businesses progress. We've got a big turnaround in C-Fresh that we are forecasting and also we've identified some additional reinvestment opportunities that, before making any decisions about, hey, we've got more cost savings that's going to drop to the bottom line, we do really want to evaluate other opportunities that we have for reinvestment and we just need a little more time to do that.

Operator

Chris Growe, Stifel.

Chris Growe - *Stifel Nicolaus - Analyst*

Good morning and happy Thanksgiving to you and your families as well. Just a question for you in relation to C-Fresh. So with the soft first half that we've expected and you showed -- started that here in the first quarter, that business needs to grow call it 5% across the remainder of the year. So I just want to understand your expectations for that business and is it about getting back on shelf for Protein PLUS, as well as gaining carrot customers back? So is there one of those that's more the main driver here that could lead you to low single digit growth for that division for the year?

Denise Morrison - *Campbell Soup Company - President & CEO*

You have it correct. We expect to be down in the first half and return to growth in the second half. Our shelf is building now for Protein PLUS and our service levels have gotten quite better; although we still have more to do. I think the main other driver is the fact that, because we've been on allocation and we are basically supplying the shelf stock, we have not been merchandising and in some cases, retailers are not merchandising the whole line. So we think that's affected both our performance and also the category performance. But when we get to the second half, we should be in a position where we are not only supplying the shelf stock, but we are also able to supply merchandising stock. We are literally selling everything we make.

Chris Growe - *Stifel Nicolaus - Analyst*

Okay. Just to understand the opportunity around regaining carrot customers. Are those expected to come back in the second half of the year? Is it that quick, or is this something that happens over time?

Denise Morrison - *Campbell Soup Company - President & CEO*

That absolutely happens over time. The good news is that our quality is improving and we believe that as customers see us sustain that quality we will gain that business back, but we are going to have to earn it.

Chris Growe - *Stifel Nicolaus - Analyst*

Okay. Thank you for the time.

Operator

Rob Moskow, Credit Suisse.

Rob Moskow - *Credit Suisse - Analyst*

Denise, in your opening remarks, you mentioned the competitive environment getting tougher, the retailers becoming more aggressive in promoting to be competitive with each other. Have you seen anything dramatically different over the past three months compared to maybe three months ago, or are you specifically talking about one category, fresh bread? Because I would argue, in your soup business, it didn't seem like you needed to be particularly promotional and I would argue that a lot of your competitors in shelf-stable food have been trying to reduce the promotional intensity. Has something changed in that regard?

Denise Morrison - *Campbell Soup Company - President & CEO*

I think that your observation in some of our categories is correct. We are finding that our categories are pretty stable when it comes to food deflation, but we are seeing some refrigerated food and beverage categories experiencing food deflation of about 3.4% in the last 13 weeks driven predominately by dairy and refrigerated meats. And although our categories are relatively stable, you are still dealing with a center store that's growing about 0% to 1% and therefore growth is hard won and it becomes a marketshare gain. So those are just observations I'm sharing. That doesn't necessarily mean it's driving crazy behavior, but it is definitely a dynamic that we are dealing with.

Anthony DiSilvestro - *Campbell Soup Company - SVP & CFO*

Just to add to Denise's comment, I would say in Italian sauce we are seeing an increased level of competitive activity and also within soup on broth, we are seeing increased activity on private label, specifically around price competition there.

Rob Moskow - *Credit Suisse - Analyst*

Okay. Does that sound transitory to you, Anthony, or do you think that's going to be throughout the year? I guess you don't know because it's competition?

Anthony DiSilvestro - *Campbell Soup Company - SVP & CFO*

Yes, I think our seasonal plans on broth are just hitting the market now or have hit the market so we do expect to obviously be more competitive on broth as well as on Prego given the competitive situation.

Rob Moskow - *Credit Suisse - Analyst*

Okay. Thank you.

Operator

Alexia Howard, Bernstein Research.

Alexia Howard - *Bernstein Research - Analyst*

Good morning, everyone. Maybe I will stick with the cost-cutting question. After this $300 million is done, you've obviously got the underlying productivity improvement this quarter of 170 basis points, but does that mean that once the $300 million is done that's really the end of the big opportunity on cost-cutting? I'm just trying to get a sense for, this year, your overall EBIT growth is fairly modest even with all that cost coming out. Once that evaporates, what's the next lever that's going to propel the earnings growth from here? Thank you and I will pass it on.

Anthony DiSilvestro - *Campbell Soup Company - SVP & CFO*

Certainly we feel really good about where we are against the $300 million program; we are $250 million into it, $50 million left to go. So obviously we are very focused on delivering that. And if I step back, I will say that it's never over. Cost savings are always going to be part of our long-term algorithm. We've got our annual 3% of cost productivity program. In addition to that, as we finish this program, we are looking for additional opportunities. We don't have any news to share with you today, but again it's something that we are looking at. We will finish this program and then figure out where we go from there.

Alexia Howard - *Bernstein Research - Analyst*

Thank you very much. I will pass it on. Happy Thanksgiving.

Operator

John Baumgartner, Wells Fargo.

John Baumgartner - *Wells Fargo Securities - Analyst*

Thanks for the question. Denise, I would like to ask about the soup category in that overall volumes are still pretty weak after two years I guess back in 2013 and 2014 when ready-to-serve came back to growth. So, as you step back and look at the broader Simple Meals universe in which you compete, how much has the competitive intensity increased more recently, whether it's from reformulations or innovation and what do you think gets the category back to at least flattish volumes on a sustainable basis?

Denise Morrison - *Campbell Soup Company - President & CEO*

I think, in the recent past, what we experienced last year was some execution issues on our RTS soup. Condensed was largely stable and broth has been increasing nicely for several years, but we experienced declines on our Chunky brand that were quite severe due to a labeling mis-step. We took a very robust price realization -- which the good news is it has stuck, but we did do that and that cost us some volume. We thought that was really necessary for the price spectrum of soup from value to premium that we are providing now to the consumer and we didn't advertise Chunky. We literally did not have a consumer advertising campaign. We have remedied that this year and that's why I believe that if we can continue to keep the stability on condensed soup, continue to grow broth and have a good comeback on RTS with Chunky and new Well Yes!, I believe that is a stronger plan going forward.

John Baumgartner - *Wells Fargo Securities - Analyst*

So it sounds like over the past two years it's more self-inflicted as opposed to anything from other Simple Meals categories then?

Denise Morrison - *Campbell Soup Company - President & CEO*

Well, we are the largest player in the category, so I believe it's our responsibility to grow the category too.

John Baumgartner - *Wells Fargo Securities - Analyst*

Great. Thanks, Denise.

Operator

David Driscoll, Citi.

David Driscoll - *Citi - Analyst*

Great, thank you and good morning. So I wanted to ask about the gross margins a little bit more here and the expansion that we saw in margins in Simple Meals. Was anything here just a continuation from last year, or how sustainable is the margin expansion? Anthony, we've seen that in Q1 and Q2 that the Company could have really large swings in margins depending on the timing of shipments and how you pace your soup production. So I feel like there could be an answer in here related to plant efficiencies and things like that that might inform us a little bit more on how gross margins will move throughout the next few quarters, but can you just -- it's a big question there -- so can you peel that thing apart and give us a little help?

Anthony DiSilvestro - *Campbell Soup Company - SVP & CFO*

Yes. As you have seen, the primary contributor to gross margin expansion came out of our Americas Simple Meals and Beverages segment and is driven by a couple of things. One is our supply chain is just running really well and that is definitely sustainable. There is no reason that should fall back as we go throughout the year here. They are also out of the gate pretty well on productivity improvement, so let me give you a couple of examples. We recently expanded one of our warehouses at our major thermal plant, so we brought in some of the storage that was on third-party sites, so that saved us some money. We've added capacity in productlines like our Prego white sauce. Additional capacity in aseptic broth, so we have repatriated some co-pack volume on those two products and that obviously is sustainable.

So I think the things that are generating the savings in the first quarter are definitely sustainable. The things that we see moving against us as we look ahead, one is cost inflation. We are, particularly within Americas, benefiting from some deflation in a couple of key categories, things like steel can and dairy, which I don't think is sustainable and based on our forecast that's going to move from more deflation to more I would say flattish in the back half.

And the third thing, which I mentioned earlier, we are making investments in the cost line against our real food initiatives. The cost of removing artificial colors and ingredients, costs associated with moving BPA from our can liners, that's going to hit more as we progress throughout the year. So, again, I think the supply chain is running well. We've got a couple of things that are going to turn a little bit as we go through the year.

David Driscoll - *Citi - Analyst*

And then just a follow-up on this. How does net price realization play into Simple Meals and then big picture, how does all these changes affect your quarterly EPS layout for the remaining portion of the year noting that last quarter you indicated that the year was going to be back-half weighted?

Anthony DiSilvestro - *Campbell Soup Company - SVP & CFO*

Yes, net price realization -- in this environment, I think we talked about this before where some categories are deflationary, some categories are extremely competitive. We don't expect a lot of gains on net price realization this year, so that should be fairly stable throughout the year. In terms of front half/back half, I think we continue to see the majority of our growth coming in the back half compared to the first half.

David Driscoll - *Citi - Analyst*

Thanks so much. Happy Thanksgiving.

Operator

David Palmer, RBC Capital Markets.

David Palmer - *RBC Capital Markets - Analyst*

Good morning. Denise, from the measured channel data, it looks like your volume lift to soup, specifically from promotions, improved in the quarter. I'm remembering the labeling issue from last year, but perhaps there's more insight about the stronger performance from your soup promotions this year and how we should look at that year-over-year lift from promotions going forward. Any color would be helpful. Thanks.

Anthony DiSilvestro - *Campbell Soup Company - SVP & CFO*

So I can take a crack at that. As we look back over the first quarter, it's relatively early and I think in terms of our promotional programs, last year was the year which we saw significant change in some of our EDLP and our promoted price points. This year, it's going to be more stable year-on-year on a price point and I think we are seeing the benefit of that. So mid-quarter, we started to put out our Chunky advertising programs. I think that more stable pricing environment enables these other things to work together and to work well. We've got some new varieties on Chunky. We definitely have new and better advertising. We are spending more behind the brand, so I would say it's not like you can point to one thing on Chunky. I think it's all those demand drivers working together that are enabling us to see better performance on Chunky.

Denise Morrison - *Campbell Soup Company - President & CEO*

Yes, I also will add that the launch of Well Yes!, although it's midyear, will be big and it's hitting and shipping during that key January wellness month from a consumer standpoint. So we expect that the promotional and merchandising support on that brand will be great.

David Palmer - *RBC Capital Markets - Analyst*

Thank you.

Operator

Michael Lavery, CLSA.

Michael Lavery - *CLSA - Analyst*

Good morning. I was wondering if you could just touch on your Kelsen business in China. I know you had reconfigured some of your distribution there. How is that progressing and specifically with say Golden Week or Single's Day have you seen better execution and performance?

Denise Morrison - *Campbell Soup Company - President & CEO*

Sure. We are expanding Kelsen in China. Last year, we made a distribution change and went from a distributor that we literally inherited when we bought the business to a different distribution network. That has actually worked out very well. The litmus test was the Autumn Festival where we increased consumption and gained share in an expanded footprint and we are going to continue to work that, but we believe that that bodes well for Chinese New Year, which is really the big event for Kelsen. The first quarter is not usually a large quarter for us on that business, but second quarter is.

Michael Lavery - *CLSA - Analyst*

Okay. That's helpful. And then just lastly a housekeeping item on the tax rate. Any change we should be aware of? Is there any impact on the rest of the year from the change to the stock-based compensation? How should we think about that full-year tax rate?

Anthony DiSilvestro - *Campbell Soup Company - SVP & CFO*

Yes, so there's been a couple of puts and takes, but we continue to estimate that our full-year rate to be around 32%, which is where that forecast has been.

Michael Lavery - *CLSA - Analyst*

Okay. Great. Thank you very much.

Operator

Jonathan Feeney, Consumer Edge Research.

Jonathan Feeney - *Consumer Edge Research - Analyst*

Happy Thanksgiving. So I'm listening to some of these questions about competitive landscape and it seems to me like your biggest competitor, the only one to speak of in ready-to-serve soup, has not only communicated to the world that it's now a foundation brand not a growth brand for them, but has announced they are closing the original facility, that's the headquarters of that and their largest single place. So, as you look at -- manufacturing center -- so if you look at ready-to-serve going forward, it would strike me the big risk here is only really that it loses shelf space with the retailers because there must be some pretty good momentum in Chunky as you are presumably putting more resources behind this.

So my questions would be are retailers recognizing the difference? Are they aware of this change in relative commitment to this category? I know you've gotten net price realization there. And what sort of expectations do you have over not only the next year, but the next couple years as capacity changes in that industry that you will be able to hold share for ready-to-serve as a whole as you presumably play a bigger role in that? Thanks very much.

Denise Morrison - *Campbell Soup Company - President & CEO*

We are committed to helping our retail customers grow their business and the center store needs more innovation. To that point, we are increasing our investment in RTS soup this year, again, on Chunky with a full-court press and full integrated marketing campaign, as well as the Well Yes! introduction and I just believe in this environment that brings news to the center store. Retailers have also expressed real positive feedback on our stackable cans. It doesn't sound that big, but it is big to them because it enables them to merchandise with operations efficiency and effectiveness. So I believe it will be a good season for RTS.

Jonathan Feeney - *Consumer Edge Research - Analyst*

Okay, thanks very much.

Operator

That concludes the Q&A session. I will now turn the call back over to Ken Gosnell for closing remarks.

Ken Gosnell - *Campbell Soup Company - IR*

Thanks, Stephanie. From all of us at Campbell, happy Thanksgiving, everyone. We thank you for joining our first-quarter earnings call and webcast. A full replay will be available about two hours after this call by going online or calling 1-703-925-2533. The access code is 1677070. You have until December 6 at which point we move the earnings call strictly to our website at investor.campbellsoupcompany.com under news and events. If you have any further questions, please call me at 856-342-6081. If you are a reporter with questions, please call Carla Burigatto, Director of External Communications at 856-342-3737. That concludes today's program. Thanks, everybody.

Operator

Thank you, ladies and gentlemen. That does conclude today's conference. You may all disconnect and everyone have a great day.