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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Campbell Soup Fourth Quarter 2018 Earnings Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded.

I would now like to turn the call over to Ken Gosnell, Vice President, Finance Strategy and Investor Relations. Sir, you may begin.

Ken Gosnell ***Campbell Soup Company - VP of Finance Strategy & IR***

Thank you. Good morning, everyone. Welcome to Campbell's fourth quarter and full year fiscal 2018 earnings call.

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'll 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 filing 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, I will turn the call over to Keith McLoughlin, Interim President and CEO. Keith?

Keith R. McLoughlin ***Campbell Soup Company - Interim President, CEO & Director***

Thanks, Ken, and good morning, everyone. Today, we will walk through our fourth quarter and full year results, cover the actions we are taking as a result of our comprehensive board-led strategy and portfolio review and provide fiscal 2019 guidance and our updated long-term targets. Anthony will first handle the financial details of the quarter and the fiscal year. And then I will provide an in-depth review of the significant strategic actions we have planned.

Before I turn it over to Anthony, let me share some high-level thoughts on what we announced on our press releases this morning. It was it tough end to a difficult year. After 3 months in my role as Interim CEO and digging into the operations with the new management team, it's abundantly clear to me that the company is in need of greater focus and discipline. We have to run Campbell with a much tougher set of operating and financial standards.

In spite our execution challenges, during the year, we completed the acquisition of Snyder's-Lance, the largest transaction in the company's history, which expands and strengthens our position in the growing snacks category. We also added Pacific Foods, a leader in organic soups and broths to our company. Both acquisitions bring valuable and growing brands that align with and complement our core capabilities and a more focused portfolio. On top of these transactions, we continue to deliver against our multiyear cost saving programs.

The results we delivered in fiscal 2018, along with our outlook for fiscal 2019, reinforce the rationale for why we undertook the strategy and portfolio review in the first place and in need for the significant actions we are taking to turn the company around. There are 3 critical action steps coming out of the review. First, Campbell must become a more focused company. Second, to accelerate this focus, we need to divest certain noncore businesses and to use the proceeds to significantly pay down debt and strengthen our balance sheet. And third, we must further reduce cost and increase our asset efficiency to reflect a leaner, more focused and agile enterprise we are building. These actions are designed to return the company to long-term organic sales and earnings growth. I will cover all of this and more in greater detail shortly.

I wanted to emphasize that the actions we announced today are the right moves at this time to create shareholder value. The board and management team are committed to deleveraging the company, maintaining our investment-grade credit rating and rewarding our shareholders through dividends. The board also remains open and committed to evaluating all strategic options if they can demonstrably enhance value.

With that, let me turn the call over to Anthony to cover our financial results.

Anthony P. DiSilvestro ***Campbell Soup Company - Senior VP & CFO***

Thanks, Keith. Before getting into the detail, I'll make a few comments on our performance.

Our results for the quarter were in line with our recent guidance, despite having to overcome the impact of the voluntary recall of flavor-blasted Goldfish, which we announced in July. In the fourth quarter, the recall had a negative impact of approximately $0.04 on adjusted EPS and is expected to have some continuing impact in the first quarter of fiscal 2019.

We are pleased with the performance of Snyder's-Lance, which exceeded our expectations and helped to offset the impact of the recall.

As you'll see, in this nonseasonal quarter, sales of U.S. soup declined by double digits. The decline reflects the continuing impact of our performance with a key customer, increased competitive activity and reductions in promotional activity across the balance of the market. We are now in the process of implementing our pricing and promotional programs for the upcoming soup season. And as we wrap our issues from last year, we expect the trends in this business to improve.

We have continued our success in delivering against our cost savings target. In the quarter, we generated an incremental $30 million of savings on the base Campbell program, bringing the year-to-date total to $95 million and the program, to date, total to $420 million. Keith will talk about our plans to expand this program going forward.

Lastly, Keith will also share the results of our strategy and portfolio review and the actions we plan to take beginning in 2019. As we've stated before, 2019 will be a transition year, and I'll review our guidance in detail. From that new 2019 base, we will be well positioned to deliver sustainable sales and earnings growth.

I'll now review our detailed results. For the fourth quarter, net sales on an as reported basis increased 33% to $2,219,000,000. Excluding a 36-point benefit from the acquisitions of Snyder's-Lance and Pacific Foods, organic net sales declined 3%, reflecting declines in Americas Simple Meals and Beverages and reflect about a 1 point negative impact attributable to the Goldfish recall.

Adjusted EBIT in the quarter was comparable to the prior year at $281 million. Excluding the impact of the Snyder's-Lance and Pacific Foods acquisitions, adjusted EBIT declined 16% also due to declines in the Americas Simple Meals and Beverages segment.

Adjusted EPS decreased 52% or $0.27 to $0.25 per share, reflecting the EBIT decline x acquisitions and the negative timing impact on the tax rate, which we discussed last quarter. Overall, our EPS results were in line with our expectations.

For the full year, as reported net sales increased 10% and organic net sales declined by 2% compared to the prior year. Adjusted EBIT declined 6% to $1,408,000,000. Excluding the impact of the recent acquisitions, adjusted EBIT decreased 10% and adjusted EPS of $2.87 was down 6%.

Breaking down our sales performance for the quarter. Organic net sales declined 3%, driven by lower volume and increased sales allowances and promotional spending. The recall of Goldfish crackers had a 1 point negative impact on organic sales in the quarter. Lower volumes were primarily the result of declines in our U.S. soup business. The increase in sales allowances negatively impacted total company sales by approximately 1 percentage point, inclusive of cost associated with the voluntary recall of flavor-blasted Goldfish crackers. Overall, promotional spending rate increased in Americas Simple Meals and Beverages, driven by U.S. soup and in Global Biscuits and Snacks, reflecting increased spending behind Arnott's biscuits in Australia.

There was no impact on sales from currency translation this quarter. The recent additions of Snyder's-Lance and Pacific Foods to the portfolio added 36 percentage points, bringing our as reported sales increase to 33%.

Our adjusted gross margin percentage decreased 5.6 points in the quarter. Excluding the diluted impact from the acquisitions of Snyder's-Lance and Pacific Foods, our adjusted gross margin percentage declined 2.6 points.

While the acquisitions are reducing our overall margins as we add them to the portfolio, we are confident that the margins on these businesses will increase significantly over time, as we integrate them into Campbell and achieve targeted cost and synergy savings.

Cost inflation and other factors had a negative impact of 270 basis points, a majority of which was cost inflation, which, on a rate basis, increased approximately 4%, reflecting higher prices on dairy, meat, steel cans and resins as well as the continuing escalation of transportation and logistics costs. The balance of the decline was driven by lawsuits on open commodity contracts as compared to gains in the year-ago quarter and the cost associated with the voluntary recall of flavor-blasted Goldfish crackers. These negative drivers were partly offset by benefits from our cost savings initiatives. Portfolio mix had a negative impact of 70 basis points.

The higher promotional spending in Americas Simple Meals and Beverages and Global Biscuits and Snacks that I previously mentioned had a negative impact of 50 basis points. Pricing had a negative impact of 40 basis points, reflecting higher customer returns and allowances due in part to the voluntary product recall.

Lastly, our supply chain productivity program, which is incremental to our cost savings program, contributed 170 basis points of margin improvement. Overall, the recall in Goldfish had a 70 basis point negative impact on gross margin. All in, our adjusted gross margin percentage decreased to 30.6%.

Adjusted marketing and selling expenses increased 28% in the quarter due primarily to the impact of recent acquisitions. Adjusted administrative expenses increased 22% to $151 million also due primarily to the impact of recent acquisitions. Excluding the impact of acquisitions, adjusted administrative expenses were comparable to the prior year, as consulting cost incurred in connection with the board-led strategic review and increased benefit cost were offset by lower incentive compensation expenses.

For additional perspective on our performance, this chart breaks down our adjusted EPS change between our operating performance and below-the-line items. Adjusted EPS decreased $0.27 from $0.52 in the prior year quarter to $0.25 per share in the current quarter. Overall, adjusted EBIT had no impact on EPS, as the addition of Snyder's-Lance was offset by lower EBIT on the balance of the business.

Adjusted net interest expense increased by $64 million, a $0.13 negative impact to EPS, driven by an increase in the debt level to fund our recent acquisitions and reflecting the impact of higher interest rates. Our adjusted EPS decline also reflects $0.13 from a higher adjusted effective tax rate. Our adjusted effective tax rate in the quarter increased by about 22 percentage points to 59%, as the timing of tax expense on an adjusted basis was negatively impacted by the impairment charges taken in the prior quarter.

And lastly, benefiting from share repurchases in prior periods, a lower share count added a $0.01 benefit to EPS, completing the bridge to $0.25 per share. Although not shown on the chart, the Snyder's-Lance and Pacific Foods acquisitions, in aggregate, had a negative EPS impact of approximately $0.04. As I mentioned earlier, the performance of Snyder's-Lance exceeded our expectations in the quarter.

Now turning to our segment results. In Americas Simple Meals and Beverages, organic sales declined 6%, driven primarily by declines in U.S. soup and in Canada. Excluding the benefit of the acquisition of Pacific Foods, sales of U.S. soup declined 14%, reflecting declines in condensed, ready-to-serve and broth. The decline reflects the continuing impact of our performance with a key customer, increased competitive activity and reductions in promotional activity across the balance of the market. As I mentioned, promotional programs for the upcoming soup season are currently being implemented, which we expect will improve our sales trends as we move through fiscal 2019.

We are seeing improvement in our V8 Vegetable Juice business, which delivered sales comparable to last year with consumption gains in V8 Original and V8 Energy. Segment operating earnings declined 21% in the quarter to $155 million. The decline was primarily driven by a lower gross margin percentage. Segment gross margin performance continued to be impacted by escalating cost inflation, including transportation and logistics cost as well as from steel, meat and vegetables.

I want to mention that in connection with our annual testing of intangible assets, we have recorded an impairment charge on the carrying value of the Plum trademark of $0.14 per share in our as reported EPS within corporate, reflecting current performance, which was below our expectations and a revised future outlook.

Here to look at U.S. wet soup category performance and our share results as measured by our IRI. For the 52-week period ending July 29, 2018, the category continued to show growth, increasing 40 basis points. However, our sales and measured channels, including Pacific on a pro forma basis declined 3.5%. We had a 59% market share for the 52-week period, down 2.4 points from the year-ago period. Our consumption and share decline are attributable to our performance with a key customer, which we've previously discussed.

Private label grew share by 140 basis points, primarily reflecting gains in broth, finishing at 15.5%.

All other branded players collectively had a share of 25.5%, increasing 1 point.

In Global Biscuits and Snacks, sales were $1,202,000,000 in the quarter, including $565 million from the acquisition of Snyder's-Lance. Excluding the benefit of the acquisition, organic sales were comparable to prior year and reflect a 2 point negative impact on segment sales from the voluntary product recall of flavor-blasted Goldfish crackers.

Segment operating earnings increased 42% to $158 million, primarily driven by the addition of Snyder's-Lance to the portfolio. Excluding the 45 point benefit from the acquisition, segment earnings declined slightly, reflecting lower gross margin performance, partly offset by lower marketing and selling expenses and lower administrative expenses. Excluding the Goldfish recall, which had a 14 point negative impact, operating earnings x acquisition increased double digits.

In the Campbell Fresh segment, organic sales increased 1% to $228 million, driven by gains in Garden Fresh Gourmet and carrot ingredients. The segment had an operating loss of $7 million in the quarter compared to a loss of $8 million in the prior year.

On a company-wide basis, cash from operations increased slightly to $1,305,000,000 compared to $1,291,000,000 in 2017, as reductions in working capital were partly offset by lower cash earnings.

Capital expenditures were $407 million, $69 million higher than the prior year, reflecting investments to support our cost savings initiatives as well as the addition of Snyder's-Lance and Pacific Foods to the portfolio.

We paid dividends totaling $426 million compared to $420 million in 2017. In aggregate, we repurchased $86 million of shares on a year-to-date basis, $75 million of which were under our strategic share repurchase program. The balance of repurchases were made to offset the dilution from equity-based compensation. As previously announced, we suspended our share repurchases following the acquisition of Snyder's-Lance.

Net debt of $9.7 billion is up from $3.2 billion a year ago, reflecting the impact of the $6.1 billion acquisition of Snyder's-Lance and the $700 million acquisition of Pacific Foods, partly offset by positive cash flow from the base business. As we've stated, we plan to use the proceeds from the divestitures to pay down debt and reduce our leverage ratios.

Now I'll turn it back to Keith.

Keith R. McLoughlin ***Campbell Soup Company - Interim President, CEO & Director***

Thanks, Anthony. On our third quarter earnings call, we announced that Campbell would be undertaking a comprehensive board-led strategy and portfolio review to develop a path forward for the company that maximizes shareholder value.

This morning, we announced the initial set of significant actions to help us improve Campbell's performance and create economic value. Before discussing the details of the review in depth, let me first provide an overview of the process we undertook.

The board engaged outside advisers to conduct a thorough and objective review of the company and provide a fresh, unbiased assessment of our strengths, weaknesses, strategy and execution. One of the first steps we took was to examine the factors that led to our performance and execution challenges. It's important for me to articulate these, so that our shareholders can hear how we plan to correct them and improve our results going forward.

Simply put, we lost focus. We lost focus strategically. We had too many initiatives that made the company unnecessarily complex. We were in the food business and the ag business. We had growth businesses and we had cash businesses. We are focused on startup businesses and venture capital investment. We aggressively pursued the important consumer megatrend of health and well being without having clarity on our source of uniqueness or whether we brought a competitive advantage to the space. And we depended too much on M&A to shape our business strategy.

We lost focus within our products and brands. We did not manage our portfolio in a differentiated manner. We pushed cash businesses for growth, and we underfunded growth businesses. Our resource and capital allocation discipline was inadequate. And we didn't properly align our resources with our core business franchises where we have strong market positions, unique capabilities and the right to win.

Lastly, we lost focus in process and execution. Our management processes lack the necessary operating discipline. We created too many silos throughout the company where decision rights were unclear. We lacked agility, and we're slow to react to customer needs. And finally, we didn't have a culture of accountability, which led to poor execution.

To round out this picture, we also faced industry-wide headwinds, such shifting consumer trends, a dynamic and changing retail environment and, more recently, significant cost inflation, all of which weighed on our performance.

In addition to understanding these challenges, the review also highlighted several of Campbell's strengths, which we will build upon going forward, and these strengths are indeed enviable. We possess iconic brands with strong market positions. We have scale and market competencies within our core CPG categories, the majority of which are in growing segments. We have strong supply chain and manufacturing capabilities, where we have a heritage of making great tasting real food that is both affordable and convenient.

We know how to reduce cost and have consistently delivered our cost saving programs ahead of schedule. We have solid margins and cash flow generation. And Campbell has a deep keel. As a 150-year-old company, we have talent, capability and commitment that is both broad and deep. With greater focus, clarity and alignment, our people can and will execute on our new direction.

Going into the review, we recognized that meaningful changes were necessary. As I stated back in May, everything is on the table. We ended the review process with a completely open mind. And as we committed, the board, together with our advisers, considered a full slate of options, including optimizing our portfolio and divesting assets and businesses; splitting the company in 2; or selling the entire company. After considerable analysis and evaluation, the board concluded that, at this time, the best path forward to maximize shareholder value is to optimize the portfolio and divest certain assets. We'll focus our portfolio on 2 core distinct businesses within the North American market, Campbell Snacks and Campbell Meals & Beverages, where we would be able to leverage our iconic brands and leading market positions. To accelerate this focus, we are pursuing significant divestitures.

In addition, we are increasing our cost savings by $150 million to reflect a leaner and more focused company that we need to become. And we are liberating an additional $350 million in cash through working capital efficiencies and more disciplined capital expenditures.

Moving to the next slide, a major lever to drive our more focused portfolio is divesting noncore businesses. We are pursuing the sale of our Campbell international business, which includes Arnott's and the Kelsen Group, and our Campbell Fresh business, which includes Bolthouse Farms, Garden Fresh Gourmet and the refrigerated soup business. These proposed divestitures represent approximately $2.1 billion in net sales in fiscal year 2018. We have engaged top-tier financial advisers to run a disciplined process that will achieve maximum value. We intend to use the proceeds from these divestitures to significantly reduce debt and are targeting a pro forma EBITDA leverage ratio of 3.0x by fiscal year 2021. While these are great brands and solid businesses, they do not fit with our new strategic direction. And we believe they will be of greater value to new owners who are focused on these categories and geographies.

I want to stress that we will continue to identify additional actions to further optimize our portfolio going forward.

Turning to the next slide. The direction we have chosen will focus our portfolio on categories and geographies where we have a right to win because of our demonstrated capabilities, scale and expertise. It will drive absolute clarity and alignment throughout the enterprise. And it will improve our operational discipline by implementing a rigorous management model. While we are making significant changes, we remain committed to our purpose, real food that matters for life's moments. It is the reason why we do what we do. Consumers continue to seek out delicious and affordable foods that are responsibly crafted with real recognizable ingredients. People want to know what's in their food and how it's made.

Our vision for Campbell is to be a leading, focused snacks and simple meals company with a portfolio of best-in-class products and brands in our core North American market that generate sustainable value for our shareholders, our customers and our consumers. We based this strategy on the strengths I reviewed at the outset. One of the reasons that we chose to build our portfolio around Campbell Snacks and Campbell's meals and beverages is the distinct competitive advantages and leadership positions we enjoy in both of these businesses. We benefit from high-brand equity with the consumers, strong product attributes and enviable market positions. In fact, more than 95% of all U.S. households have a Campbell product in them.

Campbell remains deeply committed to our strong heritage of delivering great tasting, high-quality, real food to consumers and leveraging consumer insights and trends, including health and well being, snacking and convenience. Increased focus and discipline are key tenets of our renewed strategy. And as such, we will manage our portfolio of brands based on 2 differentiated offering strategies. The first strategy applies to brand franchises that will be managed to drive profitable growth. The second applies to brand franchises that will be managed to maximize margins and cash flow.

Drive profitable growth. We will seek to grow these large and exciting brands faster than the categories in which they compete. This will apply to brands such as Cape Cod, Goldfish, Kettle, Lance, Late July, Pepperidge Farm Milano and Farmhouse cookies, Pace, Pacific, Prego and Snyder’s of Hanover. Investments in innovation and consumer engagement will enable these brands to leverage evolving consumer trends, drive growth and fulfill their role in the Campbell portfolio. In fiscal 2018, these brand franchises represented 44% of our net sales on a pro forma basis.

Maximize margin and cash flow. We will seek to generate consistent profit and cash flow from these at-scale brand franchises, including Campbell Soup, Pepperidge Farm fresh bakery, SpaghettiOs and V8. Disciplined management focus and aligned investments will support their strong market positions to optimize operating margins and cash flow and to fulfill their equally important roles in Campbell's portfolio. In fiscal 2018, these brand franchises represented 56% of our net sales on a pro forma basis. By differentiating our approach, we will be better able to allocate capital and resources and truly differentiate how we manage our brands.

On the next few slides, we have outlined in further detail how we're going to manage our businesses going forward starting with

Campbell Snacks. Our snacks business benefits from leading positions within large and attractive categories, as you can see in this chart. Snacking is an industry and category that Campbell knows well. And we have a management team in place that has consistently delivered solid results within Pepperidge Farm. Within this business, we are, of course, spending an extraordinary amount of time and resources focused on the integration and value capture of Snyder's-Lance. Given our new direction, the economic and strategic importance of this work cannot be overemphasized. Our strategic review process has allowed the team another deep dive into Snyder's-Lance. And we are even more convinced of the growth prospects and synergies in our Campbell Snacks business. The team is applying the hard lessons we've learned from previous acquisitions. We have established a robust government structure, rigorous targets and a disciplined system for tracking synergy goals. It's early, but based on what I'm seeing, I'm confident in the results and the team's ability to deliver the synergies and drive growth.

Moving to Slide 24. I want to showcase how we are fueling expansion within the snacks business through our 6 power brands, Goldfish, Pepperidge Farm Cookies, Snyder's, Kettle and Cape Cod chips and Late July. These brands will drive approximately 70% of our growth. Our plan builds upon a proven model that we have successfully deployed within Pepperidge Farm focused on consumer insights, meaningful innovation and strong marketing to drive share gains. We are taking targeted action around each brand, such as increasing manufacturing capacity and investing in innovation, marketing and e-commerce to drive growth. We will focus nearly 80% of our snacking marketing investment in these power brands to support our growth plans.

Switching to Campbell Meals & Beverages on Slide 25. Despite category headwinds and our recent challenges, we have some of the most storied brands, leading market share positions and strong margins. In the division, we are working to stabilize U.S. soup, of course, as our top priority. Driving growth in sauces, including gaining share in Italian sauces and leveraging our new Snyder's-Lance insights and distribution capabilities to increase the presence of Pace in the snack aisle. And strengthening our beverage business through continued focus on V8 Original, building on the success of our V8 + Energy line and driving relevant innovations, such as our recently launched V8+ Hydrate line.

I want to dive deeper into stabilizing our U.S. soup business on Slide 26. First, we are thinking about this business differently than we have in the past. We will not place unrealistic expectations on it, and we'll manage the brands within the portfolio in a disciplined way. We expect improved trends in the latter half of fiscal 2019, but we do not expect U.S. soup to grow this year. Given the importance of this business in the overall portfolio, I want to first give you the headline of what happened here and then go into more detail about the turnaround.

Soup is a great business, and Campbell's is an iconic brand. The business has been over relied upon to generate earnings and has been underinvested in. In recent years, we have pushed the business too hard on pricing and margin. And we did not do enough to keep our soup products and brands relevant with consumers. In fiscal 2019, we will rebase soup and strengthen our value proposition in the marketplace. Recently, Roberto Leopardi was named President of our meals and beverages business. He has put a new divisional leadership team in place. They're examining all aspects of the business, which requires a back-to-basics approach to begin to stabilize it in fiscal 2019. It starts with increased emphasis on price realization, optimizing merchandising support with key customers, reducing manufacturing cost and investments, more selective consumer-driven innovation and more effective marketing focused on the Campbell's master brand.

We will focus on 4 key brands, Campbell's, Swanson, Chunky and Pacific. Each will be managed according to a specific profile and portfolio role. We will manage Pacific to drive strong profitable growth, while our Campbell's, Swanson and Chunky brands will be managed to maximize margins and cash flow. Within each, we are taking targeted actions in line with these portfolio roles. To drive growth in Pacific, we are targeting a higher-income, bolder millennials, driving increased distribution in our core mass and grocery channels and applying our supply chain expertise to reduce manufacturing cost. And we are leveraging Pacific's strong brand position in the natural channel to launch new innovative products. To maximize margins and cash flow with Campbell's, Swanson and Chunky brands, we are increasing and optimizing marketing to drive purchase intent, focusing our messaging on convenient, affordable, delicious meal solutions and utilizing price pack architecture to differentiate and sustain margins.

Ultimately, improving performance in U.S. soup begins and ends with dramatically improved execution from our new leadership team and from a new base. I'm confident that we are doing all the right things, but it's going to take some time to stabilize the business.

With a leaner, more focused company, we see further opportunity to drive additional cost savings. As I mentioned at the outset, this is one of Campbell's demonstrated capabilities. In fact, we have delivered successful multiyear cost cutting targets ahead of schedule. We have identified an additional $150 million in cost savings. These savings will be driven by streamlining our organization, expanding our zero-based budgeting efforts and continuing to optimize our manufacturing network. This is in addition to the previously announced $500 million in cost savings and the $295 million in target synergies and run rate cost savings from our acquisition of Snyder's-Lance. Combined, these programs will bring our total cost savings target to just under $1 billion by fiscal 2022.

Additionally, we are driving asset efficiency in working capital and capital expenditures to generate an additional $350 million of free cash flow in the same time frame.

As you can see, we are taking significant actions to stabilize the company. While we have made specific choices to better focus Campbell, there is more to do, both in terms of operationalizing these plans and streamlining the portfolio. We are working with urgency to improve our execution, speed and efficiency throughout the organization with the goal of driving margin expansion and free cash flow. Fiscal 2019 will be a transition year, as we take these steps to restructure the portfolio, reduce leverage and emphasize better execution, all of which will establish the foundation for sustainable performance and profitable growth.

With that, I'll turn the call back over to Anthony to outline our fiscal 2019 guidance and new long-term targets.

Anthony P. DiSilvestro ***Campbell Soup Company - Senior VP & CFO***

Thanks, Keith. Now I'll review our 2019 outlook. Given uncertainty regarding the timing of divestitures, we are providing guidance based on our existing portfolio of businesses and also on a pro forma basis, assuming divestitures were completed and proceeds deployed at the beginning of the 2019 fiscal year, representing the new base from which we plan to grow.

I'll start with the guidance pre-divestitures. We expect sales to increase to a range of $9,975,000,000 to $10,100,000,000, as we benefit from the incremental impact of both the Snyder's-Lance and Pacific Foods acquisitions. This top line guidance implies that organic sales are expected to decline slightly. While we expect trends in U.S. soup to improve, as we implement our promotional program, we anticipate that soup sales will decline in 2019.

With our new leadership, we are in the process of developing a long-term strategy for the U.S. soup business, which, including focused innovation efforts, reinvigorating the Campbell brand and maximizing the opportunity with Pacific, is expected to stabilize longer-term performance.

In addition, sales in Campbell Fresh will be negatively impacted by the expiration of 2 major private label refrigerated soup contracts.

We expect adjusted EBIT to be in the range of $1,370,000,000 to $1,410,000,000, as declines on our base business are mostly offset by the incremental acquisition impacts of Snyder's-Lance and Pacific Foods. The EBIT decline at the base business is primarily driven by 3 factors: the anticipated decline in organic sales; the negative impact of cost inflation on gross margin; and the negative impact from higher incentive compensation, which has been significantly reduced in 2018.

We expect adjusted EPS to be in the range of $2.45 to $2.53 per share. The delta between EBIT and EPS performance is primarily driven by the interest expense associated with the acquisition of Snyder's-Lance and Pacific Foods.

As mentioned, we are also providing forecast for 2019 on a pro forma basis, assuming the planned divestitures are completed as of the beginning of the fiscal year and based on use of estimated sales proceeds to reduce debt. As you can see on the chart, our sales base declined to about $8 billion; adjusted EBIT to a range of $1,230,000,000 to $1,270,000,000; and adjusted EPS to a range of $2.40 to $2.50. The overall dilution from divestitures is modest given the current level of profitability of the Campbell Fresh division.

While we do not provide quarterly guidance, we do expect our first quarter performance to be negatively impacted by several factors. First, we are adopting the new accounting rules for revenue recognition. Given the seasonality of our business, adoption will have a negative impact on Q1 of approximately $0.04 per share with no significant impact on the full year. Second, we expect the recall of flavor-blasted Goldfish will have a negative impact on Q1. And lastly, we expect some continued pressure on U.S. soup as we implement our promotional programs and wrap the major customer issue in the first quarter.

Now I'll provide some additional detail on the assumptions impacting our pre-divestiture guidance. As we've mentioned previously, we are seeing significantly higher cost inflation, which we estimate to be in the range of 4% to 5%. The key drivers are steel cans, reflecting the impact of tariffs; transportation and logistics, which continues to rise; and on wheat, resins and corrugated.

We continue to drive meaningful productivity savings on our supply chain, which are incremental to our cost savings program. For 2019, we are targeting 3% of cost of products sold. We are targeting significant benefits from cost savings, approximately $120 million from a combination of Snyder's-Lance cost and synergy savings and the ongoing Campbell programs. Our recent decision to discontinue manufacturing in our Canadian plant and transfer most of the production to the U.S. will generate meaningful savings.

Overall, we expect our gross margin percentage will decline approximately 2 percentage points with about 1 point of the decline attributable to the negative mix impact of adding Snyder's-Lance to the portfolio for a full year compared to 4 months in 2018. The balance of the decline is primarily due to the impact of cost inflation in excess of productivity.

With a full year of acquisition financing on the Snyder's-Lance acquisition and the expectation of slightly higher interest rates, interest expense is forecast to be in the range of $375 million to $390 million in fiscal 2019.

With a full year benefit of U.S. tax reform, the effective tax rate is expected to decline to a rate of about 25%.

And lastly, capital expenditures, including spending on Snyder's-Lance and reflecting an overall decline as a percent of sales, is expected to be approximately $400 million.

We are revising our long-term targets for annual sales and earnings growth. Based on the actions we are taking in 2019, including planned divestitures, we are confident that from our 2019 post-divestiture to pro forma, we have a solid base from which to grow. Nearly half of our portfolio will be positioned in the faster-growing snacking categories. And we will also benefit from incremental revenue opportunity from combining Snyder's-Lance and Pepperidge Farm.

Driven by growth in our snacking business and stable performance from soup and simple meals, we are targeting organic sales growth of 1% to 2%.

Our adjusted EBIT target is to grow 4% to 6%, reflecting the benefits of the increased cost savings target Keith described and from achieving the Snyder's-Lance cost and synergy savings, both of which we are very confident we can deliver.

As of the end of fiscal 2018, we have delivered $420 million of savings on the base Campbell program and $35 million on Snyder's-Lance for a combined total of $455 million. And as announced this morning, our combined savings target is now $945 million by 2022.

We're targeting EPS growth of 7% to 9%, leveraging EBIT growth, using free cash flow to repay debt in the short term and improve asset turnover, as we aggressively manage our balance sheet by reducing CapEx as a percent of sales and generating positive cash flow from working capital reductions. The combination of improving margins driven by cost savings and improved asset utilization as measured by asset turnover will meaningfully improve returns on invested capital, generating economic value for shareholders.

With the deleveraging from divestitures and the continued use of free cash flow to reduce debt, leverage as measured by net debt to EBITDA is targeted to reach 3x by the end of fiscal 2021.

With that, I'll turn it back over to Keith for some closing remarks.

Keith R. McLoughlin ***Campbell Soup Company - Interim President, CEO & Director***

Thanks, Anthony. Before we turn to Q&A, I want to provide an update on our leadership team starting with our CEO search. The board is conducting a robust search process, examining both internal and external candidates who possess a track record of proven results and achievement. The board has been working with leading candidate assessment and executive search firms to assist in this process. And we look forward to updating you when the board is ready to name our new CEO.

It's important to note that we have made several changes on our management team to improve performance, including meaningful changes within the Campbell leadership team over the last 6 months. In addition to the CEO change, we appointed Luca Mignini to the newly created role of Chief Operating Officer. We also have new Presidents in 2 of our 3 operating divisions. We replaced a significant portion of the meals and beverages leadership team, including recruiting 2 senior executives from outside the company, Roberto as President and the new CMO, Diego Palmieri. And we have a strong management team in place at Campbell Snacks under Carlos Abrams-Rivera with the combination of Pepperidge Farm and Snyder's-Lance leadership. Today, Campbell has a strong and, importantly, an aligned leadership team in place to drive the company forward and execute the plans we outlined today.

In closing, we have a clear and executable strategic path forward to turn around the business, improve operating discipline and return the company to sustainable, profitable growth, all with the goal of returning capital to shareholders and maximizing long-term value.

I want to be clear. This is not the end of our work, but it is an essential beginning. It will be an ongoing dynamic process as we focus our portfolio, pay down debt, manage cost and increase our asset turnover, while continuing to invest and drive innovation around our franchise businesses.

Now let me turn it back to Ken to open the call for your questions. Ken?

Ken Gosnell ***Campbell Soup Company - VP of Finance Strategy & IR***

Thanks, Keith. Before we open up for questions, a quick note. Given the significant changes we'll be implementing over the next several months, we have decided to reschedule our investor day from October to the spring. This will enable us to provide a more robust update on our progress at that time.

Okay. Shannon, let's open up the lines and take our first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Bryan Spillane with Bank of America.

Bryan Douglass Spillane ***BofA Merrill Lynch, Research Division - MD of Equity Research***

I've got just 2 questions. One, I guess, that we have kind of fielded a lot this morning and over the last couple of weeks. Just could you maybe describe how you -- the process you used to evaluate the value creation potential maybe between this strategic path, so asset sales and cost savings versus selling the whole company? Could you give us a little bit more color in terms of how you thought about those 2 things and what the process was? And then I've got a follow-up.

Keith R. McLoughlin ***Campbell Soup Company - Interim President, CEO & Director***

Okay. Bryan, it's Keith. Thanks for your question. I'll start and maybe turn it over to Anthony. I can confirm, for sure, this was a robust process. And as you would expect, we had world-class and financial expert advisers. The board was deeply engaged in the process. And they examined all the potential strategic options to create value, whether that's a sale, doing the plan that we talked today, splitting the company in parts, so a thorough review of all options. They determined that the path that we're announcing today is the best path forward at this time. We think the actions -- and we know the actions will improve our performance and then long-term economic and shareholder value. And as we've stated, the board remains open to evaluating all potential options that enhance shareholder value. In terms of the process itself relative to the different alternatives, Anthony, can you comment on that a bit?

Anthony P. DiSilvestro ***Campbell Soup Company - Senior VP & CFO***

Sure, Keith. Bryan, as Keith stated, we did had 2 expert financial advisers involved in the process. And that process includes -- included several financial approaches. One, I would say, is a detailed discounting cash flow analysis of each of the alternative strategies, whether to optimize the portfolio, divest certain assets or split up the company. We also performed analysis of future share prices using a PE multiple approach and EBITDA multiple approach for each of the scenarios as well. And we also looked at historical transactions, multiples and historical premiums. And as Keith said, based on that assessment, our conclusion based on that analysis is the focus on 2 businesses in 1 geography as the right plan for us going forward.

Bryan Douglass Spillane ***BofA Merrill Lynch, Research Division - MD of Equity Research***

So fair to say that if there's a price for it and in terms of the sale, that price just wasn't in the market today, right? So doing this is just better than sort of selling at the bottom here. Is that -- just paraphrasing, but that's the way to kind of think about it.

Keith R. McLoughlin ***Campbell Soup Company - Interim President, CEO & Director***

Yes. I would say that we reviewed all options. And based on the information that we know, this is the best value maximizing path forward.

Bryan Douglass Spillane ***BofA Merrill Lynch, Research Division - MD of Equity Research***

Okay. And then just a follow-up. In terms of potential, at some point, hiring a new CEO, is there a potential that a new CEO would come in and start a whole other strategic review process? And -- just trying to understand how that affects kind of what you decided to do here as a go forward and whether we should sort of think about whether there could be another sort of wave of change as you recruit CEO.

Keith R. McLoughlin ***Campbell Soup Company - Interim President, CEO & Director***

Sure. Thanks for that question. I think, firstly, I'd say is this was not an individual-led process, right? This was a board-led process, so the board knows this. And the work we're doing here, and I've outlined today, candidly, has to be done. It's absolutely necessary. And I can't actually conceive of a scenario where it wouldn't need to be done. And the third thing, I would say, is we've got a strong operating team in place that's been obviously actively engaged in this process to execute it. So I don't see a major change in course. That will be the prerogative. But I think, again, this is a board-led strategy and would flow on unanimous support from the board.

Operator

Our next question comes from Andrew Lazar with Barclays.

Andrew Lazar ***Barclays Bank PLC, Research Division - MD & Senior Research Analyst***

So I'm sure there will be, obviously, plenty more questions on the strategic actions, so I'd love to focus a little bit on the core business. You talked about organic soup sales down about 14%, albeit in a small seasonal quarter. I think, post the -- obviously, post the divestitures, soup and simple meals will be a higher percentage of the overall portfolio. So in thinking about your expectations for the core soup business in '19, I think you expected -- that you'd expect that to be down still, although improving through the year. I guess, if you expect to -- and I'm not putting words in your mouth, but if you expect to get back to a more normalized promotional cadence with a key customer this coming soup season, is it that volumes in soup will look better, but maybe the offset is kind of higher promotional spending if Campbell maybe needs to help fund some of those promotions? And also I think I heard you talk about getting back to a more, I think, reasonable value proposition in soup. So I guess that's -- I'm trying to get a handle on the contributing factors around why the soup sales would still be lower next year if you get back to a more normalized promotional cadence.

Keith R. McLoughlin ***Campbell Soup Company - Interim President, CEO & Director***

Let me try that and Anthony can jump in, Andrew. I think -- and you stated that, I think, well. We've got to get back to basics on our soup business and that means the entire array of benefits that we bring to the marketplace, right? So we've got to get the price points right. We've got to get the merchandising support right. We've got to have the right level of brand investment. Obviously, product and packaging innovation is key items. And also reducing our total cost to serve. And so that's the word that Roberto and his team have underway. As you mentioned, ultimately, it's a value proposition decision, right, with benefits, minus the price. And we need to -- we make too many withdrawals. We have to make more deposits into the benefit side of that proposition. Anthony, do you have anything to add to that?

Anthony P. DiSilvestro ***Campbell Soup Company - Senior VP & CFO***

Sure. Andrew, just a couple of points. One is on a pro forma basis, soup would be about 30% of our portfolio going forward, so it's off a little bit from where it was before. I think you're directionally correct on kind of what we're looking for in F '19, which is better volume performance, but a little more trade spending on our part. And I would say, with respect to the key customer, a couple of issues around timing. One is we're lapping some pretty major hurricanes, so we had a bit of a volume bump last year that we're wrapping. And we're also not going to wrap the customer issue until we get to the middle of the first quarter. But with respect to that key customer, and we can't comment on the specifics, but what we can say is that we are aligned to the soup strategy for the upcoming soup season. That includes pricing, merchandising activity, including the holiday programs as well as new items. So we expect to be back in business. And by the middle of September, that programming and pricing will be in place, so we would expect the trends to improve as we go into the heart of the soup season.

Andrew Lazar ***Barclays Bank PLC, Research Division - MD & Senior Research Analyst***

Got it. And then lastly, with about $500 million of incremental cost savings coming over the next 4 years, obviously, you've talked about underinvesting in soup in the past and pushing a bit too hard on pricing and margins. I guess, with that in mind, can you give us a sense of maybe what proportion, even broadly, of, let's say, that $500 million would need to be invested back into the business? Because I'm trying to assess the reasonableness, if you will, of the 4% to 6% EBIT growth target over time. That's a key component of that. I think, in the past, albeit a while ago, you've talked about half of the cost savings needing to be invested back in the business. I don't know if that's changed dramatically or not.

Keith R. McLoughlin ***Campbell Soup Company - Interim President, CEO & Director***

Yes. We're not going to use each specific business. And maybe I can say that as you see in the portfolio set up here, and specifically the roles within the portfolio, we're actually looking to deploy the vast majority of our resources against what we're calling these franchise brands, right, so brands that have strong position in the marketplace, that have best-in-class products, that have strong market shares and have high margins. And so what you're going to expect from ours is we're going to only take money at a corporate treasury and deploy it against those winning brands, and that's the significant shift. And it's going to allow incredible discipline and focus for the organization because we're winning those places.

Operator

Our next question comes from Ken Goldman with JPMorgan.

Kenneth B. Goldman ***JP Morgan Chase & Co, Research Division - Senior Analyst***

Two questions for me. First, you talked about the board being open to all options, including a sale. I understand why you might be emphasizing this. You've had some public pressures lately to be open to all options. But I guess, I'm curious. Is this statement any different, in any way, from what's always been the case? Boards are always required to be open to all options that create shareholder value. So I guess, I'm trying to really ascertain, is the willingness to sell, has that been heightened at all during the last few months? Or is the message today just, "Hey, we've always been open. And we're just kind of reminding you of that fact?"

Keith R. McLoughlin ***Campbell Soup Company - Interim President, CEO & Director***

Yes. I would say, a little bit to your point, we're a public company, right? I mean, we're for sale every day, right? So a little bit to your point, nothing has changed here. I think what we're trying to emphasize is that we committed. And I committed to you, I think, back on May '18 that all options were on the table and no safe accounts, I think, is what I said, and that was the fact. And so as the board went through the strategic alternative review process, every material strategic alternative was reviewed and considered. So that's why we're emphasizing it. But to your point, we're a public company.

Kenneth B. Goldman ***JP Morgan Chase & Co, Research Division - Senior Analyst***

Okay. And then my second question is prior management obviously did some things that maybe you would do differently. But the board also approved, right, some of these acquisitions, Kelsen, Plum, Garden Fresh, Bolthouse. All of these are now being sold or written down or both. So I guess, a, what are the board learnings from these deals? And, b, should investors have any expectations that maybe the board, which didn't necessarily drive the company in the direction that you wanted to build, Keith, might change any further in terms of its composition to support some of these go-forward strategies?

Keith R. McLoughlin ***Campbell Soup Company - Interim President, CEO & Director***

Right. No, that's fair. I think what I would say is my experiences that dealmaking works and really only works when acquired brands fit well into the buyer's capabilities and strengths. And we've got some good example of that right now in the case of Pacific, right, and soup and the case of Snyder's-Lance and connecting that to the strengths and capabilities of Pepperidge Farm snacking. But -- and we've had some examples where that wasn't the case, carrots and, potentially, other areas. So I think that's the key learning, right? And that's how we'll leverage these most recent acquisitions and while we're getting good traction on them, candidly.

Operator

Our next question comes from David Palmer with RBC Capital Markets.

David Sterling Palmer ***RBC Capital Markets, LLC, Research Division - MD of Food and Restaurants and Consumer Analysts***

Just a couple of follow-ups on your organic trends. You said that you expect organic sales to decline in fiscal '19. By roughly how much are you baking in the guidance when you said it's an improvement through the year? And do you anticipate getting back to, perhaps, stability by the end of this fiscal year?

Anthony P. DiSilvestro ***Campbell Soup Company - Senior VP & CFO***

Yes, I'll take that, David. So I think it -- when you guys unpacked the guidance here, you'll figure out there was a modest decline expected on organic sales. And the 2 primary drivers are: one, the expected decline on U.S. soup; and second, and I've mentioned this in my remarks, is we have a couple of fairly significant expiring private label refrigerated soup contracts that are not going to get renewed. And those contracts are probably worth about 1 point on total company sales. The soup decline is probably worth 1 point on total company soup -- on sales as well. So that gives you a sense for what our expectations are. And as I said before, our expectation is that trend on soup will improve as we get into the soup season.

David Sterling Palmer ***RBC Capital Markets, LLC, Research Division - MD of Food and Restaurants and Consumer Analysts***

And then just a follow-up on the long-term guidance. I have a feeling that there's a lot of investors that are simply not going to believe that Campbell is a long-term, low single-digit top line grower and high single-digit EPS grower. You've scrubbed the -- you're obviously changing the complexion of the business, but you're also taking a hard look at it now and believe that past fiscal '19 that -- those are the right targets. Is there any argument you can make that would help us -- help convince us that this is going to be a balanced top line, bottom line growth company in fiscal '20 and beyond? Love to hear any detail on that.

Keith R. McLoughlin ***Campbell Soup Company - Interim President, CEO & Director***

Sure. Again, I could start and then Anthony can jump in. A part of it goes back to the tough choices that we're making here, right, and having a much more focused portfolio where we're investing and driving in what we're calling franchise businesses, franchise brands. We're -- we already have strong brands. We already have strong margins. We already have best-in-class products. We already have strong market shares. It's actually having the discipline and the focus to invest in those winning franchises, so that's a very important part of this. So as that happens, of course, we're going to continue to grow. We're going have growth. We're going to have expanding margins. We're going to increase our asset turnover. And as you know, even with low single-digit growth and expanding margins based on what the margins we have and the work we're doing on our balance sheet, it's going to generate a lot of free cash flow, right? It's going to strengthen the balance sheet and, importantly, give us the headroom to invest back in this business, on top of that, maintaining healthy and steady dividends. So the algorithm -- the value algorithm fits well and makes sense. We think it's anchored into the capital markets and is connected to the strategy. And we think that's to fulfill our role within our shareholders' portfolio to deliver these long-term targets. Anthony, you may want to speak some more on how that -- leverage that we're getting between balance sheet growth and EPS growth.

Anthony P. DiSilvestro ***Campbell Soup Company - Senior VP & CFO***

I mean, I would say, when we get through the transition, we will be a very different company. These planned divestitures will enable us to focus our portfolio on the 2 businesses and 1 geography, significantly reduce debt and delever the balance sheet. And as we take Campbell Fresh and Campbell International out, we're integrating Snyder's-Lance into the portfolio. This is a significant shift in the composition. We'll be -- almost half of our sales will be in the faster-growing snacking categories. We'll benefit from revenue opportunities from the combinations of Snyder's and Pepperidge. We have a significant cost reduction opportunity. We're targeting $945 million by 2022, $295 million of that from Snyder's-Lance. And as Keith said, we've got a good track record of delivering against cost savings. And we're very confident we can deliver against that $945 million. Keith also talked about managing the balance sheet, CapEx down as a percent of sales, reductions in working capital. And that combination of top line growth, although it's modest, and cost-driven margin expansion, which we're confident we can achieve, can generate 7% to 9% EPS growth.

Operator

Our next question comes from David Driscoll with Citi.

David Christopher Driscoll ***Citigroup Inc, Research Division - MD and Senior Research Analyst***

I had a couple of follow-ups, and then two more important questions. Keith, this is for you, and pretty important for you, Keith. So as it relates to the CEO search, are you one of the candidates?

Keith R. McLoughlin ***Campbell Soup Company - Interim President, CEO & Director***

Yes. I have not thrown my name in the hat. The board, as you know, is conducting a robust search process, and we have both internal and external candidates. They're utilizing leading candidate assessment and executive search firms as we talked about. I can tell you they are on it in a big way. As for me, I'm all in. And I'm all in for as long as the board would like me to be.

David Christopher Driscoll ***Citigroup Inc, Research Division - MD and Senior Research Analyst***

Okay. And then on the savings program, you guys got a lot going on here. Just to make sure on the savings, you've got the big savings programs and then you've got like normal productivity. So -- and so you do not intermix these. First off, Anthony, is that correct? Every time you see these savings programs, these are kind of episodic programs, but not just every day productivity. Is that correct?

Anthony P. DiSilvestro ***Campbell Soup Company - Senior VP & CFO***

Correct.

David Christopher Driscoll ***Citigroup Inc, Research Division - MD and Senior Research Analyst***

Okay. Then when we look at the $945 million column that you gave on one of the slides, I'm really trying to understand savings that would be expected after fiscal '19, and I just want confirmation on the math. So it's $945 million, you did $455 million to date, and then you've got $120 million projected for fiscal '19. So I believe that would leave a sizable $370 million in projected savings after fiscal '19. Am I getting that right? And that's not -- there's no normal productivity in that.

Anthony P. DiSilvestro ***Campbell Soup Company - Senior VP & CFO***

That's exactly right.

David Christopher Driscoll ***Citigroup Inc, Research Division - MD and Senior Research Analyst***

All right. Fine. On soup -- just one follow-up on the question on soup. Anthony, you've made this comment that the soup is -- that you're going to have these lapping issues or something. First quarter is still weak. In [the period of] first quarter, soup was -- it was really poor. The first quarter results last year were more negative than expected because of soup. The declines were very substantial. Can you just explain more why you're making it sound that you faced a tough comp in the year-ago first quarter? It sure doesn't look like that when I looked at those results in the year ago.

Anthony P. DiSilvestro ***Campbell Soup Company - Senior VP & CFO***

Yes. I think that you have to look at within the quarter and the timing of when the issue started with the key customer on the soup category and also some early benefits we had around the timing of the hurricane. And as we look at that and look at the pricing and promotional programs and new items that are going into play, that's kind of how we see the season unfolding.

David Christopher Driscoll ***Citigroup Inc, Research Division - MD and Senior Research Analyst***

Okay. Final thing for me is this, all this inflation and I just don't hear that much from you guys as regards to your attempt at gating pricing. Every other company is talking about this. Where do you guys stand on your efforts to take pricing, either list pricing or price pack architecture? How significant is pricing in fiscal '19?

Keith R. McLoughlin ***Campbell Soup Company - Interim President, CEO & Director***

Yes. Thank you. I'll take that. We are taking pricing actions, and we need to take more is kind of the short version. As you know, it's not an easy environment right now to get structural list price increases. And therefore, you have to play the whole keyboard. You've got to do list price actions, you've got to do gross-to-net work, you've got to do mix work, you've got to do cost-out engineering, and our teams are doing all of that. My experience is that commodity cycles are like currency cycles. They have -- ultimately, they have to make their way into the marketplace. Unfortunately, there's usually a lag, right, on both ways. But for us, the question is not if they're going to make their way into the marketplace, it's when and how much and getting that pushed through. So we have more to do there. I would say, stay tuned.

David Christopher Driscoll ***Citigroup Inc, Research Division - MD and Senior Research Analyst***

So is it fair to say fiscal '19 is a little modest on this relative to the cost side and more will happen kind of maybe later in fiscal year, really think about it in F '20? I think that's what you're trying to say.

Keith R. McLoughlin ***Campbell Soup Company - Interim President, CEO & Director***

What we're saying is that we have to talk to our customers first. And as soon as we talked to our customers, then we will communicate -- you'll be the second to know.

Operator

Our next question comes from Jason English with Goldman Sachs.

Jason M. English ***Goldman Sachs Group Inc., Research Division - VP***

So Keith, once the grounds are covered, let's -- I just want to focus, first and foremost, on the fiscal '19 outlook. I know there's lots of moving pieces, but if I'd just drill down what I heard, I think there are really 2 core contributors to the earnings decline next year: one, the cost inflation, which is going to outstrip productivity; and second, the promo/price/value adjustments you're going to make on soup. Is that fair?

Keith R. McLoughlin ***Campbell Soup Company - Interim President, CEO & Director***

Yes. I would say that's actually -- Anthony, you can jump in. But I think there's 3 buckets here. One is that -- as you mentioned, the biggest one, by far, is the cost inflation, and that -- for the previous caller's question, we're not getting enough price to offset that in fiscal '19. So that's the biggest headline or impact for organic earnings in the year. As you mentioned, also, the sales decline both in meals and beverages and also C-Fresh that Anthony mentioned. That -- there's -- a not insignificant part of that organic fresh soup businesses that's going -- is going away. And so the sales decline there is having an impact on earnings. And we also have some administrative incentive comp numbers that are tough to comp over. Anthony, can you comment any more on it? Basically...

Anthony P. DiSilvestro ***Campbell Soup Company - Senior VP & CFO***

Yes. Sure. And the incentive comp is not insignificant. It's way down this year. And it's about 4 points [heading into] -- to growth next year. On the marketing, I would say that more of this is a shift within advertising, consumer and trade as we focus on fewer brands, fewer initiatives and fewer campaigns. And we are reallocating some of that money to the promotional line. So a lot of it is shifting around within the portfolio and not necessarily an absolute increase in total marketing as a percent of list sales.

Jason M. English ***Goldman Sachs Group Inc., Research Division - VP***

And Keith, in some of your opening remarks -- sorry, I guess your opening remarks in terms of the strategic review process, you expressed some frustration in terms of the lack of investment behind the core brands, behind sort of core-related growth avenues. But as I listen to you walk us through the fiscal '19 guidance, particularly, in context with Anthony's last comment of you planning on cutting A&P server next year, reallocating it for the next year. Why could you not contemplate more reinvestment as you look to reset the base for next year? And why shouldn't we think that, particularly as we contemplate potentially a new CEO comes into the fall, [there wouldn't] it be a wave of reinvestment need on the horizon?

Keith R. McLoughlin ***Campbell Soup Company - Interim President, CEO & Director***

Yes. So again, it's a balancing act here a little bit. But really, I -- you'll see, and it's happening in 2019, in some cases, as we focus more within the portfolios or which portfolios we're going to focus on. But then within those portfolios, for example, within U.S. Soup, right, we're going to focus on the key brands that I've mentioned there. And actually, there will be, in some cases, a 50% increase in brand spend, in advertising spend. So again, it's probably a layer of detail that you can't see. But within the portfolio, there is investment increasing not at a insignificant rate against specific brands that we're targeting.

Jason M. English ***Goldman Sachs Group Inc., Research Division - VP***

That makes sense. And one last housekeeping question then I'll pass it on. In the quarter, you mentioned that acquisitions were 300 basis points to gross -- 300 basis point drag to gross margins. A quick back in the envelope math, I guess the acquisitions will have to roll through roughly a 25% gross margin to create a 300 basis point drag. Is that roughly in the ballpark? And if so, you mentioned that Lance exceeded expectations. It doesn't sound like gross profit exceeded or maybe our expectations are that much lower. What exactly is exceeding expectations at Lance?

Anthony P. DiSilvestro ***Campbell Soup Company - Senior VP & CFO***

Yes. The math is right. The impact of the acquisitions and it's both Pacific Foods and Snyder's-Lance, a 300 basis point negative impact on the quarter. And if we dial back a few months, as we came into the fourth quarter, we had certain expectations for the performance of Snyder's-Lance. And I think, as we mentioned, there were a couple of things that we were dealing with, one around nut production equipment that was relocated and some higher-than-anticipated freight inflation. I think what exceeded our expectations is the fundamental performance of the business and the achievement of the $35 million of cost and synergy savings which helped to offset those other impacts. But net-net, it's still a drag on the overall gross margin percentage and will be, as we get to full year into next year, about a point negative impact on next year relative to this year.

Operator

Our next question comes from Chris Growe with Stifel.

Christopher Robert Growe ***Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Analyst***

Keith, you've talked about operating 2 different strategies, if you will, for the business. One, pursuing growth for business and snacks; and one, pursuing margin and cash flow for the rest of the business. And how many companies do this currently? I wonder if you could speak to the challenges of having those 2 separate strategies under one roof. And to that end, did the board consider or would the board still consider splitting these companies apart, given their very different growth trajectories and capital requirements?

Keith R. McLoughlin ***Campbell Soup Company - Interim President, CEO & Director***

Yes. Let me start with the -- your second question, and that, as we stated earlier, the board remains open to evaluating all potential options to enhance value going forward, right? And right now, what we're talking about today is what the board has decided is the value maximizing strategy. And if there's a better way to do it going forward, they maintain that flexibility. But right now, it's focused straight ahead. And let me answer your question, it's -- so don't think about necessarily snacking is -- this is a little tricky, so let me try to walk through it. Don't think about it as a 2 businesses with 2 completely different missions, right? Snacking versus meals and beverages. It's actually, the missions that we're talking about are brand missions. And so you have to go within snacking and within meals and beverages and say, "Look, where are the businesses that have those criteria that we talked about, right?" So have the brand strength, have best-in-class products, have the market position, market share, have high margins. And then you say, "Okay. I've got a franchise business." Now the next question is, "What's the market that they're playing it, right?" Is it a growth market or is it a stable market and, in some cases, like condensed soup, is it a declining market? So they're still franchise businesses but from that you say, "Okay, which ones are -- have the growth missions and which ones has an earning and cash mission?" So that's how we're doing the work. And actually that took, honestly, a more sophisticated way to operate and manage a portfolio. We've done a ton of work over the last 10, 12 weeks with the senior leadership team to get through this. We have real good clarity on that. And it's just hard work. It's not that complicated to manage it. It's just hard work, and I think we're up for that.

Christopher Robert Growe ***Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Analyst***

Okay. And then I certainly heard your comment about the divestitures and know that the board had a full review of the assets that could be sold. I just want to see if I could understand the main determinant of the divestitures, particularly Arnott's and Kelsen, and C-Fresh as a separate -- a separate item there, certainly. But is the balance sheet the main concern, so getting cash in the door, getting debt down? Or is it more the lack of international scale that prompts the divestitures?

Keith R. McLoughlin ***Campbell Soup Company - Interim President, CEO & Director***

Yes.

Christopher Robert Growe ***Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Analyst***

Okay. So just one quick one then. And maybe for Anthony or for you, Keith. But just the long-term EPS growth rate, which you've discussed, has gone up. And I just want to make sure I understood what's behind that. Is that just the use of cash and paying down debt and buying buy stock? Or if I think about this for the long term, what is that you see that's driven that EPS growth rate higher?

Keith R. McLoughlin ***Campbell Soup Company - Interim President, CEO & Director***

Anthony?

Anthony P. DiSilvestro ***Campbell Soup Company - Senior VP & CFO***

Yes. I think it's -- like I said, I think we, fundamentally, have a different business coming out of this transition than we do today, one that has a higher exposure to the faster-growing snacking categories, one that has tremendous cost-saving opportunities on the heels of the acquisition of Snyder’s-Lance and the opportunities that we have to integrate Snyder's and Pepperidge and Campbell together. It's also driven by the successful cost takeout that we've had ongoing at Campbell's and the fact that now we're going to increase that by $150 million. And we have good line of sight in terms of where that's going to come from. You get some lift, obviously, between EBIT and EPS because we're -- as we drive the earnings growth and manage the balance sheet that the cash flow generation is going to be even more significant using that cash flow to repay debt in the short term, and then transition to other uses of cash as we get the leverage ratio back to where we wanted it to be.

Keith R. McLoughlin ***Campbell Soup Company - Interim President, CEO & Director***

Yes. Let me just build on that just a little bit. One of the opportunities that we see in the company, as Anthony mentioned, is the work the balance sheet as hard as we work the income statement. I think, historically, we haven't done that in the company and go back a few years, we probably didn't necessarily have to do that, but we have to do that now, and we should be doing it, right? So as some of you know, my experience is not living in businesses with margins like we have here, right, which meant you work that balance sheet hard every day. And so we're going to deploy that. And we're -- we've already activated several initiatives against that. And that will help. When we get those assets turning faster and get those margins expanding to free cash flow to kind of margins we had, the free cash flow generation here is potentially significant.

Operator

Our next question comes from Robert Moskow with Crédit Suisse.

Robert Bain Moskow ***Crédit Suisse AG, Research Division - Research Analyst***

A couple of questions. One is I think you might have a response from the activist investor who's involved in your name and may even try to get board seats. What is your willingness to accept new additions to the board from this party? Second, I'm still a little unclear on why Snyder’s-Lance was better than expectations. By my math, operating margin for the business was maybe mid to high operating margin. And Keith, as you've dug deeper into this business, why is the margin so low? And what makes you comfortable it can go higher from here?

Keith R. McLoughlin ***Campbell Soup Company - Interim President, CEO & Director***

Yes. Let me start with the -- your first question, which really, unfortunately, I won't comment on. We're not -- it's not appropriate for us to comment on speculation on what might or might not happen with regard to what shareholders will do or won't do. So I'd rather not speculate. And then specifically on your second question relative to -- make sure I got it, if you could restate it a little bit, around the margins in Snyder's-Lance. Was that the question?

Robert Bain Moskow ***Crédit Suisse AG, Research Division - Research Analyst***

Yes. And Anthony can chime in, but what's the operating margin for that Snyder's-Lance contribution? It seems mid to high-single digit. And I think you said that you dug deeper into it, you're very happy with the fundamental performance. I think there was even some comments last quarter about price contracts that were unfavorable. I haven't heard anything, any update on that either. So am I doing the math, right? And why should the margin go higher?

Anthony P. DiSilvestro ***Campbell Soup Company - Senior VP & CFO***

Yes. I'll give you the number that -- the margin in this [dug] period here was about 9% on $770 million-odd worth of sales. And as I said before, there's been some pluses and minuses. We had to deal with the trade issue on one of the categories, which we mentioned previously. We're dealing with this nut production challenge and a bit higher inflation, particularly, around freight. So we've been able to offset more than we had expected coming into the quarter, and that's been driven by a factor, realization of cost savings than we initially anticipated. As we said, we -- we're at $35 million as we finished the year, so that's the piece that exceeded our expectation. And in fact, it's helped offset a majority of the other issues that I mentioned.

Robert Bain Moskow ***Crédit Suisse AG, Research Division - Research Analyst***

Anthony, do you think the margins, overall, for snacks could go back to 15% for the combined division? Or once you get all the synergies you expected?

Anthony P. DiSilvestro ***Campbell Soup Company - Senior VP & CFO***

Absolutely. As we look to this business -- and we have the opportunity as we did the strategy review to take another deep dive into Snyder's-Lance, we're even more optimistic and confident that we can achieve these forecasts. And if I just talk about 2021, we had previously talked about an EPS accretion range of $0.40 to $0.55. I would say now that I would be at the higher end of that range in terms of our outlook as we sit here today.

Operator

Our next question comes from John Baumgartner with Wells Fargo.

John Joseph Baumgartner ***Wells Fargo Securities, LLC, Research Division - VP and Senior Analyst***

Keith, just wanted to stick with the plans to improve soup. And that -- and we've seen Campbell keep its level of total integrated marketing spend relatively unchanged over the past decade even as other Simple Meals categories have become more competitive. So what is the review told you about the extent to which this turnaround in soup has to be geared towards having a better compete against other categories outside of soup versus how much has to be done within Soup versus private label and other brands?

Keith R. McLoughlin ***Campbell Soup Company - Interim President, CEO & Director***

Right. So let me make sure I address your entire question there. So let me start with soup. What we've looked at and what we've realized, of course, is, as I mentioned, we've probably pushed that business too hard, right? And it didn't -- in some cases, it didn't have the price points right. And not just -- our price points was relative to other things, right? So our price points relative to private label, relative to ready-to-serve, relative to competitive. products. So we've got to get that right. We've got to make sure we have the right -- and cadence of merchandising support. We didn't necessarily have that. We -- and then candidly, we pulled back, over the last several years, a lot of brand support. And you can't do that in this business, right? So we've got to come back to that. And also I think the innovation -- we've actually spent a fair amount of money on innovation, we just haven't had the success rates, right? So we've got to be tighter and more effective and more efficient and more focused on these brands that we're talking about with our innovation. So there's lots of work to do. And the team -- Roberto and his team are all over it. We're engaged in the marketplace, with our customers, obviously, connecting to consumers. So we've got some cool things that we're working on. You won't see that in the beginning of the first half of '19. But as we get through '19, and it's, honestly, the F '20 soup season, I'm quite optimistic. In terms of the other businesses, Simple Meals businesses, as you know, there are some good healthy businesses there, right? So we want to -- that have good margins and some good growth, so we want to support those as well. They have specific missions. Some are different than others, of course, whether you're talking about SpaghettiOs or V8 or Prego or -- so depending on where they are and where they sit in the marketplace, we are -- they have differential missions and, therefore, differential deployment of resources. Does that answer your question?

John Joseph Baumgartner ***Wells Fargo Securities, LLC, Research Division - VP and Senior Analyst***

Yes. Very helpful. And then just maybe a follow-up for Anthony. Just -- I wanted to come back to the increased savings target for core Campbell. Can you walk through just maybe in more detail the buckets and sources for that? I mean, how much is in COGS versus SG&A? And then, specifically, any comments you have on the manufacturing side? Because I guess we've seen Campbell already closed as its highest costs with efficient plans over the year. So what's any new on that front?

Anthony P. DiSilvestro ***Campbell Soup Company - Senior VP & CFO***

Sure. So as we talked about, the total amount is to target $945 million, and that's a combination of the base Campbell program, which we had been targeting $500 million. We finished the year at $420 million. And inside of that -- and one of the things that's going to generate some of that incremental savings on that program is the recent decision to discontinue manufacturing in our Canadian plant and transfer most of that production to the U.S. So we're still making decisions around the plant network and the footprint. And the other piece of it, as I said before, is the Snyder's-Lance. That's $205 million. And then lastly, as Keith said, there's an incremental $150 million. I don't have exactly the split between G&A and COPS, but I'd consider that it's going to be both in there where there are some organizational costs that we're targeting. There are some further ZBB work that we can do. We've come a long way since 2016 on the ZBB process and having implemented it here and have some experience with it, so we're going to expand that a little bit. And then we think there's additional opportunities in the supply chain. Some of those are procurement-related, some of them are manufacturing-related. So we'll continue to look at our footprint growth, the plant network and the production lines within those plants. You may recall, one of the things we have done over the last couple of years is our -- we call our Soup Common Platform initiatives. It gives us a lot of flexibility, more common can sizes with flexibility on the size, up and down. So that has enabled us to take production lines out within plants. And we'll continue to look at the overall plant network obviously including the Snyder's-Lance plants.

Operator

Our last question is from Steve Strycula with UBS.

Steven A. Strycula ***UBS Investment Bank, Research Division - Director and Equity Research Analyst***

So Anthony, a few questions for you, just wanted to walk through a clarification. The 1 percentage point drag that you're getting from the fresh soup business, is that coming primarily -- or being recorded in the C-Fresh segment? And if so, was that embedded in for the fiscal '19 numbers? Does that imply sales are probably down $100 million for that segment? And this profit segment about equal to what it was in 2018? Or is it a little bit worse?

Anthony P. DiSilvestro ***Campbell Soup Company - Senior VP & CFO***

Yes. The soup contracts that I was talking about are refrigerated soup contracts, and they are within the Campbell Fresh division. They probably represent about a point on total company sales. And we're also going to lose -- it's not the greatest margin, but we'll lose some margin on that. What we're anticipating, overall, on Campbell Fresh is to make improvements in the Bolthouse Farms business, which is a combination of carrots and refrigerated beverages and salad dressing. So we're expecting some improvement there. We'll give some back on the other side. I'll probably call it a push overall.

Operator

This concludes the question-and-answer session. I would now like to turn the call back over to Keith McLoughlin for closing remarks.

Keith R. McLoughlin ***Campbell Soup Company - Interim President, CEO & Director***

Okay. Thank you. And thanks, everyone, for joining the call today. Although it's only been 90 days, a lot has been accomplished and a lot has been decided. Having said that, this is an important beginning. We have several important work frames under way that we're very excited about. And we look forward to updating you on our progress in those work frames, several of which those on the phone have asked about today. So we're looking forward to updating you. Of course, we also have to operationalize these plants, right, so we've got a lot of work to do going forward, but we're quite confident in that. But one thought I'd like to leave you with is, this is a new Campbell, a Campbell that is focused on our franchise businesses to drive sustainable, profitable growth, that is stronger both in our balance sheet and our management teams, that is leaner and more agile with less bureaucracy and faster decision-making and then is disciplined in our capital allocation, our resource deployment and our drive to maximize shareholder value. Thank you for joining us this morning. And for those of you in the U.S., wish you a great Labor Day weekend. Thanks very much.

Operator

Ladies and gentlemen, this concludes today's conference. Thanks for your participation. Have a wonderful day.