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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Campbell Soup First Quarter 2019 Earnings Call. (Operator Instructions) As a reminder, this conference call may be recorded.

I would now like to introduce your host for today's conference, Mr. Ken Gosnell, Vice President, Finance Strategy and Investor Relations. Sir, you may begin.

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

Thank you, Crystal. Good morning, everyone. Welcome to the first quarter earnings call for Campbell Soup's fiscal 2019. With me here in New Jersey are Keith McLoughlin, interim 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'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 filings for a list of factors that could cause our actual results to vary materially from those anticipated in forward-looking statements.

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

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 discuss the progress we've made executing the significant actions we announced on August 30 following our comprehensive board-led strategy and portfolio review, and in that context, review our first quarter results. As we stated at that time, fiscal 2019 will be a transition year for Campbell as we take steps to turn around the company, and the year-over-year results we reported today reflect that.

This morning, I will give you an overview of the steps we are taking to implement our new strategy, and in that context, share my perspective on our performance. Then our Chief Financial Officer Anthony DiSilvestro will walk through the financial details of the quarter and our fiscal 2019 guidance, which we reaffirmed today.

Moving to Slide 4. As you recall, we announced on May 18 that the board was launching its own strategy and portfolio review process, one with outside advisers and which all options were on the table. Together with those advisers, we evaluated a full slate of potential options for Campbell, including optimizing our portfolio and divesting assets, splitting the company in 2 and selling the entire company. After considerable analysis and evaluation and as discussed on August 30, the board concluded that at this time, the best path forward to maximize shareholder value and maintain flexibility going forward is a three-pronged strategy: first, optimize our portfolio and focus on our core businesses with an emphasis on execution; two, divest certain noncore businesses in order to focus the company while significantly paying down debt; and three, to increase our successful multiyear cost saving efforts while driving improved asset efficiency.

We have not wasted time since then, and we're doing what we said we would do. We are actively making Campbell a highly focused company that is built around our 2 core North American businesses, snacks and meals and beverages. These are strong businesses where we have the right to win with franchise brands, best-in-class products and significant market positions.

I will get into more specifics about each business in a moment, but I want to share a specific example of the greater operating discipline resulting from our increased intensity, particularly in our core North American operations. Put simply, we are improving our execution and delivering on our commitments to create a stronger, more focused and more disciplined company.

In late September, we had noted in our 10-K that we were experiencing significant higher-than-expected costs as well as considerable shipment delays across our meals and beverages portfolio because of supply chain challenges we faced early in the quarter related to the start-up of a new distribution center in Ohio. This facility, which is operated by a third party, will ultimately enable us to serve a broader customer base and provide greater service flexibility. During that same time period, our plant in Maxton, North Carolina literally became an island as the flood waters rose from Hurricane Florence. In response, we deployed a cross-functional team led by supply chain experts and sales leaders that displayed amazing teamwork and moved with urgency to overcome these issues with our third-party logistics provider. They made substantial improvements in the final month of the quarter to recapture the vast majority of these sales. It was a Herculean effort and is indicative of new Campbell that we're building. This focus is carrying over into other areas of the company as well.

Let's start with soup. Moving to Slide 5. Within our meals and beverages business, our top priority is to stabilize and improve the performance of our soup business. As we have discussed, soup is a great business, and we are taking a back-to-basics approach, leveraging our market-leading brands and driving improved execution across the portfolio. In fiscal '19, we are resetting the value proposition for U.S. Soup. This starts with increased focus on our key brands, each of which we're managing with rigor and according to a specific portfolio role. Campbell's, Swanson and Chunky are being managed to maximize margins and cash flow, and Pacific and our Well Yes! brands are being managed to drive strong profitable growth.

Despite the sales decline in the quarter, there are many reasons we're optimistic about soup, including greater operating discipline, improved merchandising and a new management team that is moving quickly and decisively to improve performance. The supply chain challenges I mentioned earlier hampered the start of the quarter, but soup gained momentum as the quarter progressed and soup sales grew in October.

As we look to improve performance in soup, we outlined several areas of actions when we spoke in August, and let me highlight them here. First, our emphasis on adjusting price gaps is showing signs of progress despite the challenging retail environment. This year we have more competitive pricing on key segments as we enter soup season versus a year ago. Second, we are optimizing our merchandising with increased frequency and breadth compared to a year ago. And third, we have refocused our marketing efforts around a new campaign with the iconic Campbell's brand front and center. In October, we launched a new contemporary campaign that features our Campbell's Condensed at the recipe store for delicious and affordable family meals. We are driving efficiencies in our spend and focusing our marketing dollars on our most profitable brands to both increase purchase intent and strengthen long-term brand equity. We launched soup advertising later than usual this past quarter due to the distribution facility start-up issues that I previously mentioned as we sought to ensure marketing aligned with distribution capability. Soup advertising began appearing in the last 2 weeks of October compared to September a year ago.

While soup consumer marketing spend was lower than a year ago, we expect our soup marketing investments to normalize in the second quarter as we entered the heart of the soup season.

Additionally, our Swanson broth business had a particular good quarter. Swanson sales and share growth are driven by category momentum, expanded distribution and a new marketing campaign that also started in October.

Part of our back-to-basics approach on soup includes selective consumer-driven innovation. In the quarter, we launched Campbell's Well Yes! Super Bowl soups for affordable on-the-go snacking to attract new consumers to the category. It's early days, but the launch has gained strong distribution, and early velocity is ahead of our expectations.

Turning to Pacific. We are pleased with the performance of the brand and the progress of the integration. We are taking steps to increase our production efficiency and distribution capabilities at Pacific as it continues to perform against its portfolio role to drive strong profitable growth and in line with our acquisition expectations.

Our focus on operating discipline has been elevated across the division, particularly in soup. The result is a more effective meals and beverages leadership team that is executing well.

Stabilizing soup is our top priority given the importance of this business. We're executing the plans we outlined back in August with increased emphasis on price realization, optimized merchandising support, targeted consumer-driven innovation and more effective in contemporary marketing focused on the iconic Campbell's master brand. We are doing the right things and are encouraged that our plans are beginning to have an impact. As we said last quarter and fiscal '19, we will rebase soup and strengthen our value proposition in the marketplace. We have made progress against that objective at the start of the year. That said, we acknowledge that there is much more work to be done, and it will take time to fully stabilize the business.

I want to talk about the focus and execution in our snacking business and the combination of the Pepperidge Farm and Snyder's-Lance portfolios to form Campbell Snacks. The combination of these powerful portfolios establishes Campbell's as a leading player in the attractive and growing U.S. snacking market. We continue to see opportunities to drive significant top line growth and margin expansion in Campbell Snacks as we invest and innovate across our portfolio of leading brands, capture cost synergies and create and enhance culture of performance and accountability.

The 2 businesses that comprise Campbell Snacks are robust. This quarter marks the 16th consecutive quarter of organic growth in Pepperidge Farm. And the underlying Snyder's-Lance business is strong as well, with share growth in 6 of our 8 key brands this quarter, including Lance, Kettle, Cape Cod, Pretzel Crisps, Emerald and high double-digit growth in our Late July brand. As we've discussed previously, it's worth noting that prior to the closing of the acquisition, the former Snyder's-Lance management team executed SKU rationalization and price realization plan that didn't materialize, which have been a headwind to consumer takeaway, particularly for the Snyder's of Hanover brand. We are driving innovation across Campbell Snacks by executing against key consumer snacking insights. The combination of Pepperidge Farm and Snyder's-Lance enables us to leverage advanced manufacturing network to create new innovations such as Goldfish, Epic Crunch, a new line aimed at older kids, which was developed in Pepperidge Farm's kitchens and made in the Snyder's-Lance bakery. There are numerous examples where we're transferring expertise across the portfolio such as applying our real food knowledge to drive reinventions in products like Lance crackers with color sourced from plants and Pop Secret made with natural flavors. As we integrate and drive synergies, we are diving into the portfolio role of these brands across our portfolio and making capital investments to support our growth franchises. Specifically, we are expanding capacity in Goldfish, Milano, and Kettle, all of which are example of brands that are growing and driving share growth in their respective categories.

From a value capture standpoint, our Snyder's-Lance integration and synergy actions are on track. The team is delivering synergies across the business including in manufacturing, procurement, warehousing and distribution as well as streamlining our managing processes. In supply chain, we're leveraging our scale to reduce input cost, and we are accelerating our investments in automation to improve our cost structure. We're delivering on our integration and synergy commitments, and we expect continued progress going forward. We're confident in long-term growth and margin expansion potential for Snyder's-Lance.

We have created a single Campbell Snacks leadership team accountable for our North American snacks business that is applying a consumer-first approach to growth, delivering against our integration efforts and fully leveraging our deep knowledge of snacking that spans both Pepperidge Farm and Snyder's-Lance.

Moving to Slide 7. The second leg of our new strategy is to divest noncore assets. This serves a number of purposes. It allows us to accelerate our focus, significantly pay down debt and strengthen our balance sheet. On August 30, we announced our intention to begin this divestiture process by selling Campbell International and Campbell Fresh as we focus on our core businesses in North America. We started to work immediately after our last call to begin the process of divesting these 2 businesses. Our financial advisers have been actively soliciting. As expected, there has been very strong initial interest from a range of potential strategic and financial borrowers for these assets because both are solid businesses made up of great brands. We continue to believe these businesses will be of greater value to new owners who are focused on these categories and geographies. Combined, these businesses represented approximately $2.1 billion in annual net sales in fiscal 2018. We intend to use the proceeds to pay down debt. And combined with ongoing strong free cash flow, we aim to achieve a target leverage ratio of 3x net debt-to-EBITDA by the end of fiscal 2021. We continue to expect to announce buyers for these businesses before the end of the fiscal 2019, but our overrunning goal remains to run a highly disciplined process on a time line that will achieve the maximum value for these attractive assets. As we also stated in August, we are not complete. We will continue to review additional actions to further focus and refine our portfolio against our go-forward strategy.

Moving to Slide 8. The third leg of our strategy is something that we have delivered on effectively over the last several years: cost savings. On August 30, we announced plans to cut another incremental $150 million from our overall costs as well as steps to drive asset efficiency in working capital and capital expenditures as we build a leaner, more focused and more agile company. We have already started on this work and have continued to deliver meaningful cost savings with an additional $45 million realized in the first quarter. This remains a core Campbell strength, and we are confident in our ability to deliver the full $945 million in cumulative annualized savings by the end of fiscal 2022.

Our focus on cost reductions and asset efficiencies helped drive improved cash flow, which continues to allow us to return value to our shareholders with $107 million in quarterly cash dividends while continuing to invest in our core business.

As we said previously, fiscal 2019 will be a transition year for Campbell as our new management team guided by the board operationalizes our plans to focus our portfolio and dramatically improve our execution. I want to emphasize that the actions we are implementing are the right ones 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 long-term earnings growth and competitive cash dividends. I also want to reiterate that the board remains committed to evaluating all strategic options if they can demonstrably enhance value above and beyond the significant actions that we are currently undertaking.

With that as context, we are pleased with our performance in the quarter. We are improving our execution, and our results were on track with our expectations, leading us to reiterate our fiscal 2019 guidance for this transition year. We are hardwiring our operating plans to our key priorities, KPIs, employee objectives and compensation practices to build a culture of performance where enhanced feed, decision-making and accountability are foundational. We are breaking down silos and working together in new ways across the company as evidenced by the continued successful integration of both Snyder's-Lance and Pacific in the speed at which we acted to fix the supply chain issues at the new distribution center. This is quite encouraging. As you can see, we are moving quickly to implement the plans we announced back in August, and we are making measurable progress across all of our key priorities.

And now, let me turn it over to Anthony for a discussion of our financial results. Anthony?

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

Thanks, Keith. Before getting into the details, I'll make a few comments on our performance. Overall, our results were in line with our expectations and we are on track to achieve our fiscal year goals. As we disclosed in our 10-K, in connection with the transition to our new U.S. warehouse optimization model, we experienced start-up issues at our new Findlay, Ohio Distribution Center early in the quarter, which were impacting our ability to ship product to our customers. The Findlay facility, which is operated by a third-party logistics provider, serves as the Midwest hub for distribution for a majority of our meals and beverage products. In October, we were able to recover quickly from the start-up challenges. And despite $12 million of incremental cost, we finished the quarter with financial results that were in line with our original expectations.

As we called out on the August 30 call, we expected the first quarter to be negatively impacted by a change in revenue recognition, the voluntary recall of Flavor Blasted Goldfish and some continued pressure on U.S. Soup as we implement our promotional programs for the upcoming soup season. The impact from the change in revenue recognition, which accelerates the timing of expense related to promotional programs had a 1-point negative impact on net sales, a 50-basis-point impact on gross margin and a 4-point negative impact on adjusted EBIT, the equivalent of $0.04 per share.

Our organic sales declined 3% including the 1-point negative impact from the change in accounting. And while the Goldfish brand has recovered well, we experienced some negative impact from the July 2018 voluntary recall of Flavor Blasted Goldfish. Excluding these 2 items that were more onetime in nature, the balance of the sales decline was mostly U.S. Soup. During the quarter, we implemented our promotional programs for the upcoming soup season and are encouraged by the improving trends.

We continue to achieve our cost savings goals. Against our aggregate program, which includes Snyder's-Lance, we generated $45 million of incremental cost savings in the quarter, bringing the program today total to $500 million. As we've discussed, we are now targeting to reach $945 million of cost and synergy savings by the end of 2022.

We are pleased with the progress made on the acquisitions of Snyder's-Lance and Pacific Foods. The integration of these businesses is on track and the financial performance is meeting our expectations. Combined, the acquisitions were neutral to our adjusted EPS results in the quarter.

Given our first quarter performance and outlook for the balance of the year, we are reaffirming our guidance for fiscal 2019. And in connection with our plan announced August 30, we intend to divest our international snacking business and the Campbell Fresh business. Together with our financial advisers, we've initiated divestiture processes and have seen significant buyer interest for both businesses.

I'll now review our detailed results. For the first quarter, net sales on an as-reported basis increased 25% to approximately $2.7 billion, reflecting the recent acquisitions of Snyder's-Lance and Pacific Foods. And as I mentioned, organic sales declined 3%. Adjusted EBIT decreased 2% to $410 million. Excluding the 4-point negative impact from the change in revenue recognition, adjusted EBIT increased 2% driven primarily by the incremental earnings from the recent acquisitions, partly offset by a 12-point decline on the base business reflecting gross margin pressure. Adjusted EPS decreased 14% or $0.13 to $0.79 per share, reflecting adjusted EBIT declines in the base business, including the $0.04 negative impact from the change in revenue recognition partly offset by a lower adjusted tax rate. In aggregate, the acquisitions of Snyder's-Lance and Pacific Foods had no net impact on adjusted EPS in the quarter.

Breaking down our net sales performance for the quarter. Organic net sales declined 3% driven by higher promotional spending and lower volume. Lower volumes were primarily the result of decline in U.S. Soup. Promotional spending negatively impacted net sales by 2 points, 1 point of which was the result of the new revenue accounting guidance, which accelerates the timing of promotional expense. The impact of the accounting change is not expected to be material for the fiscal year. The balance of the increase in promotional spending, primarily reflects increased spending on the U.S. Soup business. There was a 1-point negative impact on net sales from currency translation this quarter. And the recent addition to Snyder's-Lance and Pacific Foods to the portfolio added 29 percentage points, bringing our as-reported net sales increase to 25%.

Our adjusted gross margin percentage decreased 4.9 points in the quarter. Excluding a 190 basis point dilutive impact from the acquisitions of Snyder's-Lance and Pacific Foods, our adjusted gross margin percentage declined 3 points. While the acquisitions are reducing our overall margin as we add them to the portfolio, we are confident that the margins on these businesses will increase 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 290 basis points, a majority of which was cost inflation, which on a rate basis increased approximately 4.5%, reflecting higher prices on steel cans, vegetables, wheat, dairy and resins as well as the continuing escalation of transportation and logistics costs. The balance of the margin decline was driven primarily by higher-than-expected distribution costs associated with the start-up of the Findlay, Ohio distribution facility. These negative drivers were partly offset by benefits from our cost-savings initiatives.

Higher promotional spending, including the 50 basis point impact of the change in revenue recognition, had a negative impact of 140 basis points. Portfolio mix had a negative impact of 20 basis points. Pricing had a positive impact of 30 basis points, reflecting actions taken in our Global Biscuits and Snacks segment. Lastly, our supply chain productivity program, which is incremental to our cost savings program, contributed 120 basis points of margin improvement. All in, our adjusted gross margin percentage decreased to 31.6%.

Moving on to other operating items. Adjusted marketing and selling expenses increased 12% in the quarter due primarily to the impact of recent acquisitions, partly offset by lower advertising on the base business within meals and beverages. The reduction in spending reflects a reallocation of support from advertising to promotional spending, reduced support levels in light of the distribution challenges faced earlier in the quarter and a later start to our U.S. Soup campaign relative to the prior year. Adjusted administrative expenses increased 19% to $163 million due primarily to the impact of recent acquisitions. Excluding the impact of acquisitions, adjusted administrative expenses increased slightly, reflecting cost associated with the current proxy contest.

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 $0.13 from $0.92 in the prior year quarter to $0.79 per share in the current quarter. On a currency-neutral basis, adjusted EBIT had a negative $0.01 impact on EPS, reflecting lower EBIT on the base business inclusive of a $0.04 negative impact from the change in revenue recognition, partly offset by the addition of Snyder's-Lance and Pacific Foods. Net interest expense increased by $63 million, a $0.16 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 benefited from a lower adjusted effective tax rate increasing EPS by $0.04. Our adjusted effective tax rate was 24.3% in the quarter, which declined by 3.9 percentage points due primarily to the lower U.S. federal tax rate, offset partly by the favorable settlement of certain U.S. state tax matters in the prior year quarter. And lastly, there was a $0.01 negative impact on EPS from currency translation this quarter, completing the bridge to $0.79 per share. And although not shown on the chart, in aggregate, the acquisitions of Snyder's-Lance and Pacific Foods were neutral to adjusted EPS.

Now turning to our segment results. In meals and beverages, organic sales declined 5%, driven primarily by declines in U.S. Soup, Prego and Canada, partly by gains in V8 Beverages. The segment sales were negatively impacted by 1 point from the change in revenue recognition. Excluding the benefit from the acquisition of Pacific Foods and the impact from the change in revenue recognition, sales of U.S. Soup decreased 6% driven by declines in ready-to-serve and condensed soups, partly offset by gains in broth. The sales decline in U.S. Soup reflects continued competitive pressure across the market and increased promotional spending. We are encouraged by the improved trends through the quarter as we implemented our promotional plans for the upcoming soup season. While consumer takeaway dollars sales declined 7% in the quarter, they were comparable to the prior year in the last 4-week period. We are also encouraged by the performance of V8 Beverages, which achieved sales gains in the quarter driven by V8 + Energy and the core vegetable juice business.

Segment operating earnings declined 11% to $294 million. The decrease was driven primarily by a lower gross margin percentage, partly offset by lower advertising expenses. Gross margin performance reflects the impact of higher levels of cost inflation; increased promotional spending, including the impact from the change in revenue recognition; and higher-than-expected distribution costs associated with the Findlay, Ohio distribution facility start-up.

Here's a look at U.S. wet soup category performance and our share results as measured by IRI. For the 52-week period ending October 28, 2018, the category saw the decline decreasing 40 basis points. Our sales and measured channels, including Pacific on a pro forma basis, declined 4.6% as we continue to wrap the major customer issue that we started to face a year ago. We had a 58.6% market share for the 52-week period, down 250 basis points from the year ago period. Private label grew share, increasing 160 basis points, primarily reflecting gains in broth, finishing at 15.9%. All other branded players collectively had a share of 25.5%, increasing 90 basis points.

Although not shown on the chart, for the 4-week period ending October 28, 2018, our sales in measured channels were up 20 basis points, a notable improvement versus the latest 52-week period.

In Global Biscuits and Snacks, sales were $1,218,000,000 in the quarter including, $554 million from the acquisition of Snyder's-Lance. Please note that we've moved the Latin America business to the meals and beverages segment and have adjusted prior period results. Excluding the benefit from the acquisition of Snyder's-Lance and the negative impact from currency translation, organic sales decreased

1% driven primarily by declines in Kelsen cookies in the U.S.

Sales of Pepperidge Farm's Goldfish crackers increased slightly in the quarter. As expected, sales of Goldfish crackers were negatively impacted by the voluntary product recall in July 2018, although we are very pleased with how the brand has recovered.

On Snyder's-Lance, it is important to note that the SKU rationalization and price realization initiative are having a negative impact on sales growth, particularly on the Snyder's of Hanover brand. While SKU rationalization is having a short-term impact on sales, this action will result in a more streamlined and profitable portfolio going forward. Snyder's-Lance sales performance was in line with our expectations with core brands achieving sales growth as measured by consumer takeaway and with 6 of the 8 core brands achieving market share gains.

Segment operating earnings increased 32% to $154 million, reflecting a 45-point benefit from the acquisition of Snyder's-Lance. Excluding the impact of the acquisition, segment operating earnings declined due primarily to a lower gross margin reflecting higher levels of cost inflation.

In the Campbell Fresh segment, organic sales decreased 1% to $232 million, driven by declines in refrigerated soup, Garden Fresh Gourmet and Bolthouse Farms refrigerated beverages partly offset by gains in carrots. Segment operating loss was $3 million compared to a loss of $6 million in the prior year. Although modest, this $3 million year-over-year improvement reflects improved operational efficiency in beverages, partly offset by the impact of refrigerated soup volume decline.

As disclosed in our non-GAAP reconciliation in corporate, we recorded a noncash impairment charge on the fixed asset of our refrigerated soup plant as we consider a potential sale as part of our planned divestiture of the Campbell Fresh segment.

On a company-wide basis, cash from operations increased to $231 million compared to $188 million in 2018 as lower working capital requirements and lower payments and hedging activities were partly offset by lower cash earnings. The cash outlay for capital expenditures was $111 million, $53 million higher than the prior year reflecting the timing of cash payments as well as investments to support our cost-savings initiatives and the addition of Snyder's-Lance and Pacific Foods to the portfolio. We continue to forecast CapEx of approximately $400 million for fiscal 2019.

We paid dividends totaling 107 million compared to 111 million in 2018. As previously announced, we suspended our share repurchases in the second quarter of fiscal 2018 as a result of the acquisition of Snyder's-Lance.

Net debt of $9.6 billion is up from $3.3 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 generated by the base business. As part of our August 30 plan, we have initiated processes to divest our international snacking business and Campbell Fresh, and we'll use the proceeds from these divestitures to reduce debt and improve our leverage ratio.

Now I'll review our 2019 guidance, which is unchanged from August 30. As we did previously, we are providing guidance based on our existing portfolio of businesses and also on a pro forma basis assuming planned divestitures were completed as of the start of the fiscal year with proceeds used to reduce debt.

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're seeing improved trends as we implement our promotional programs, we anticipate that U.S. Soup sales will decline in 2019. In addition, we expect sales in Campbell Fresh to be negatively impacted as 2 major private label refrigerated soup customers will insource production starting in 2019. 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 impact of Snyder's-Lance and Pacific Foods. Both of these acquired businesses are performing in line with our expectations and represent significant long-term growth opportunities.

The EBIT decline on the base business reflects the anticipated decline in organic sales, the negative impact of 4% to 5% cost inflation on gross margin and the negative impact from higher incentive compensation, which was significantly reduced in 2018.

We are forecasting a decline in our gross margin percentage of approximately 2 points as cost inflation and higher promotional spending are only partly offset by 3% cost productivity and benefits from cost savings. Gross margin trends are expected to improve in the back half of the year for several reasons: a positive impact from the change in accounting, wrapping the Snyder's-Lance acquisition, pricing actions we're currently implementing in the marketplace, phasing of productivity gains and some moderation of year-on-year cost inflation. 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. We expect interest expense in the range of $375 million to $390 million and an adjusted tax rate of approximately 25%. And against our cost and synergy targets, we expect to achieve $120 million of savings.

We are also providing forecast for 2019 on a pro forma basis assuming the planned divestitures were completed as of the beginning of the fiscal year and based on the use of estimated 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 anticipated dilution from the divestitures is modest given the current level of profitability of the Campbell Fresh division. As I stated, we've initiated divestiture processes for both Campbell International and C Fresh and have seen significant buyer interest for both businesses.

That concludes my remarks. And now I'll turn it back to Keith.

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

Okay. Thank you, Anthony. And before we open up the call to questions, I just want to touch on our CEO search process. The board is being extremely thorough to make sure it selects the right candidate to lead Campbell through this important time. This is a very attractive role to a number of highly qualified internal and external candidates. The board continues to have extensive discussions with a number of candidates who possess deep experience in consumer packaged goods and a strong track record of proven results. The board continues to expect to name a permanent CEO by the end of the calendar year.

In summary, we're seeing the early signs of improved execution and performance this quarter. We are confident that our plans provide a clear strategic path forward and a strong foundation for executing the Campbell turnaround. We are squarely focused on our plan, and we'll not be distracted from our mission, executing the plan to maximize value for all shareholders. Much more work lies ahead, but we are pleased with the overall pace of our progress.

And now let me turn it back to Ken to open up the call for your questions.

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

Thanks, Keith. We'll 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. Okay. Crystal?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Bryan Spillane from Bank of America.

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

So I guess, my question is just around the cost savings. I think it was $45 million of savings in the first quarter, and you're still guiding to $120 million for the year. And I think, Anthony, you said that you expected more productivity in the back half. So could you just square, I guess, if we're running at $45 million in the first quarter, why the savings won't be more than $120 million for the full year?

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

Yes. Sure, Bryan. So as you pointed out, we're at $45 million against the full year guidance of $120 million. So that's about 2/3 of that will come through cost, the other 1/3 through SG&A. My comments earlier about cost savings was meant to address productivity. So in addition to these cost savings program, we target 3% of cost productivity savings every year. And it's those savings that are a little bit more phased to the back half than the first half this year. So that was what I was addressing.

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

Okay. So the cost productivity was less than 3% than in the first quarter?

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

Yes.

Operator

Our next question comes from David Driscoll from Citi.

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

I wanted to ask, Keith, you got a bit of a chance here to see Campbell's from the Chief Executive Officer role. Obviously, you've been on the board for years. You have $945 million laid out in the synergy capture, $500 million already achieved, $445 million left to go. Simple math would say that this is worth more than $1.00 a share in terms of gross impact the Campbell's. And since it's estimates, couple of years out, Keith, they only go up like $0.20. The question to you is, you got a chance to look at these savings. Are they real? Do you believe in this bucket share are better in savings potential? And then how much of this can actually go down to the bottom line on Campbell's? Or do you foresee most or all of this needing to be reinvested back into the business to restore top line growth?

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

Yes, now that's a good question, and I think you partly answered the last a bit actually, so I think these numbers are real. And having been on the board for a few years, I've watched the company execute on this cost initiatives. And now, of course, being with the management team here, I see why they're good at it. It's a very disciplined and robust process, and we track it rigorously. And, of course, now I'm in the middle of those meetings. So my confidence that we'll do it is high. As you know, to get to the $945 million, you have $0.5 billion of the current program, which is getting close to being complete or at least meeting that number. You've got the $295 million from Snyder's-Lance, and we're reporting on that frequently as you can imagine. And we put the challenge up with another $150 million. So I would say, of the $945 million, that's the $150 million -- the additional $150 million is where we got to get more traction. We got to get more line of sight. We've got obviously work underway to do that, but there is more work to do there. But I don't know, Anthony, you've been leading a big part of those for us for several years and now can you add to that?

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

Yes. Totally agree, Keith, that we're highly confident against the $945 million. I think the other way to come out at it is in the context of our long-term growth algorithm and how do you get from 1% to 2% sales to 4% to 6% EBIT growth. And that delta implies about 50 basis points of margin expansion every year. And if you do the math against where we are today to the $945 million, it implies a little bit of -- little over half of those cost savings need to go to expand margin. The other chunk of it can go back into the business to reinvest to grow the brand.

Operator

Our next question comes from Chris Growe from Stifel.

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

Anthony, you outlined $12 million in cost that was related to the Ohio facility. I want to understand in the first quarter if you were to add up to the Ohio cost, to the incremental freight costs, the hurricane cost, could you give a number for what the totality of those costs were? And then as you offset that, obviously, marketing was a little lower. Was that the main offset to that incremental cost in the quarter?

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

Yes, that's pretty close. I think if you look at the $0.13 decline in EPS and back out taxes and currency, you've got a $0.17 decline. Of that $0.17 decline, $0.04 is revenue recognition, $0.03 is Findlay. The hurricane did not really have a significant impact when all is said and done. And then the balance of it, which is $0.10 are combination of the gross margin pressure, the lower organic sales, partly offset by the reduction in advertising and consumer spending is how you get there.

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

Okay, and did you say how much the advertising -- just piece that was down in the quarter?

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

No. I think in the press release, we say we're up 13 selling and marketing, and 28 points of that increase is the acquisition. So we're down double digits.

Operator

Our next question comes from Ken Goldman from JPMorgan.

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

When you talked on Slide 5 about your plan to stabilize soup, there's some, I think, low hanging fruit there that is the right move in terms of price gaps and merchandising and so forth. But what I think it's still to me not apparent in the plan is how you will drive consumers to get more excited by and interested in your core soup product? Again I'm saying that is the only innovation I see here is on the Well Yes! sipping soup side, which is not that big of a product, right? And then on Slide 23, you talked about everyone will want what's next, so there is not a single product in the next column that is a core Campbell's soup or Chunky product also. So I guess, I'm trying to figure out what is the plan to spark sustained consumer interest in the core Campbell's soup red and white can as well as Chunky. Any help there would be, I think, very useful.

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

Sure. It's good question. Of course, you have to -- at the end of the day, what we're going to get paid for in soup is relevant consumer innovation. So you're right on target with the question. We've got to bring more relevant innovation at a faster rate to the consumers. We're going to do that in a couple of ways. One is a big theme, as you know, is focus, right? How do we focus on those core brands, those core categories where we have strength, where we got market position. And so to redeploy or deploy the R&D dollars against those key categories. It's going to be in areas like convenience. It's going to be in areas like meal preparation, right? How do you deal -- how do you take away that 4:00 to 6:00 p.m. nightmare that happens in every household like what's for dinner? It's going to be in healthy and vegetables. Cooking -- leveraging our cooking expertise, right, and helping people deal with that time frame to say, here's an easy way to take some chicken or salmon, and with these ingredients, with these capabilities, make a healthy meal for your family. So it's going to be in those areas. Actually, we've got lots of neat stuff happen. I'm very excited to get together with you all during Investor Day to show you some of the stuff that Roberto and his team have under the hood there. But it's not yet ready for prime time, but your point is well made and well taken, it's we're going to get paid for relevant innovation that could bring excitement back into the category.

Operator

Our next question comes from Robert Moskow from Crédit Suisse.

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

I guess, I had a similar question as Ken did, but it was specifically about millennials. I thought I remembered 3 months ago that there was going to be a more concerted effort to target younger consumers with the Campbell brand and specifically in cooking. And I didn't see much here in terms of how you're doing that, maybe your answer's the same, wait until the Analyst Day. But then secondly, what I did see in the market a lot was a lot of 10 for 10, 10 cans of condensed soup for $10. What was the decision to go back to that? In the past, I've heard the company really didn't want to discount that deeply in condensed. Is that changing now?

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

Yes, I would say, actually, to your first part of your question around the millennials, we are -- you probably -- maybe you haven't seen yet, but we started in the last 2 weeks of October a new campaign to buy condensed specifically against millennials. And it's basically, the show millennials had to take the Campbell's condensed soup and use it for meal preparation. So you remember exactly correctly, and actually, the new campaign is right on that specific target segment with that featured benefit that you mentioned. I'm sorry for the actual promotion, I can't speak the detail. Anthony, do you have any experience on the 10 for 1?

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

Yes, I mean, historically, our issue on 10 for 10 has been on RTS, right, more so. And that's what we wanted to get away from. We have. It's not unusual to see 10 for 10 on some of the condensed items.

Operator

Our next question comes from Steve Strycula from UBS.

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

Quick question. On the gross margin piece, Anthony, what builds the confidence for the second half margin recovery on the gross margin rate? Maybe speak to what the inflation assumptions are, some of the headwinds that kind of dissipate? And then a quick follow-on would be on the international snacking piece, is that about a $1.2 billion revenue entity with, call it, 230 of EBITDA? Just some parameters would be helpful.

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

So on the gross margin point, obviously, we're down in the first quarter. There are some unusual things in there: 60 basis points related to Findlay; 50 basis points on revenue recognition; some higher trade on U.S. Soup; cost inflations running in that 4% to 5% range as we expected, key drivers being steel, wheat, vegetables, dairy and resins. As we look ahead to the balance of the year, we do expect improving trends, and there is a number of reasons for that. First is the accounting change. The revenue recognition is a bad guy in the first half. It's a positive in the second half. Second, and this is an important one, we're going to wrap the acquisition of Snyder's-Lance end of March. So it turns from being a dilutive mix impact to a positive contributor to organic margin expansion. Third, we have communicated to our customers pricing actions that we're taking in a number of brands, and these will go in effect in the second half, have some impact and certainly have more impact as we move into 2020. Also, we'll start to wrap some of the more significant inflation, so that should moderate a little bit. And as I said earlier on the call, our ongoing 3% cost productivity program is a little back-end loaded this year relative to others. So those are the 4 or 5 things that give us confidence that these trends will improve throughout the year. And on your other question, I think you're right on the international sales. We're not going to break down the EBITDA at that level given where we are in these divestiture processes.

Operator

Our next question comes from Andrew Lazar from Barclays.

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

Just 2 quick things. One, I think on the last call, you talked about U.S. Soup probably worth about 1 point of a decline for the full year in total company sales. I wanted to get a sense if that was still around what you were thinking. And then, second, I'm just trying to square your comments from an earlier question around reinvesting maybe a little less than half of sort of the savings over the period of time back into the business. Were there some comments last quarter were you weren't necessarily -- you didn't tell me you're expecting a significant reinvestment, more of a reallocation from some brands to more disproportionate spending on some others? And I wanted to make sure I just understood how to square those 2 comments.

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

Yes. So on the sales part, yes. So U.S. Soup performance, we do expect soup sales to be down on the year, probably worth close to a point total company sales, the other headwind that we're facing is in the 2 major private labels, fresh soup customers moving to insourcing that will have a negative impact as we go through the year. In terms of the reinvestment, Andrew, I think if you just look at our -- like I said, if you look at our EBIT versus our sales long-term algorithm is worth about 50 basis points. And that 50 basis points is about

$60 million to $70 million of incremental EBIT every year. And if you just work out the math on the program to go in terms of the annual savings, you need a little over half of that to go to that margin expansion. Now that's a little bit simplistic because obviously you have a basket of items that are going up or down in that EBIT bridge, but I think high level, that's about what we would expect to see happen going forward.

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

Okay. And Anthony, around the reinvestment, is a lot of it more in the marketing and customer spend side? Or are there may be spending that needs to be done behind capabilities in terms of what you need going forward tat that we're less aware of?

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

No, I think that's a good question. It's probably all of the above, right? I mean, it's not just limited to one area of investment,right? You've got to increase capabilities one way or another, whether in technology or in people or in brands or in products. So...

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

Yes, we've talked about this before. And things like digital and e-commerce, we have been stepping up our level of investment, and we'll continue.

Operator

And our next question will come from Jonathan Feeney from Consumer Edge.

Jonathan Patrick Feeney ***Consumer Edge Research, LLC - Senior Analyst of Food & HPC and Managing Partner***

Just wanted to ask a question on the gross margin. I guess, a related issue, which is the affordability. When I look at the 2-year progress, 1-year progress in gross margin, even backing out the acquisition impact, it now compares unfavorably to, I think, a lot of your peers directly. And to juxtapose that with the conversation about affordability, I guess, I just wonder, me looking at the data, I wonder how much of the issue is affordability per se and where is that data coming from? Is it the consumer or the retailer that's telling you that products aren't affordable? Particularly, I assume that relates largely to the meals business and soups specifically. So I guess, where is that data coming from? And are you confident that gross margins have bottomed and are going up from here on an organic basis, setting aside whatever effect the planned divestitures might have?

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

I might need you to say a little bit more about the affordability part of the question. But just kind of generally relative to gross margins, of course, as you know, our gross margins, as you stated, have been compressed here in the last couple of years, primarily driven by the underperformance in C-Fresh and major issue we've had with major customer in soup. I mean, that said, not insignificant challenge to our margins as you know. And as we are stating and as you're seeing, we're starting to see -- getting traction. We're divesting the C-Fresh side. And then in soup, it looks like we're getting traction, both for the key customer and also in general. So that gives us confidence. We'll get the cost at work. We'll get the synergies from Snyder's-Lance. Get their gross margins back closer to where Pepperidge Farm's are. And that combination gives us confidence that the gross margin will expand. But you had another question around affordability, I just want to make sure I get that question.

Operator

So that will conclude our question-and-answer session for today's conference. I'd now like to turn the call back over to Keith McLoughlin for any closing remarks.

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

Okay, thank you. And thanks, everyone. Just a couple of concluding remarks. Hopefully, you can kind of get a little bit of a picture here that there are changes happening at Campbell's. We are in a turnaround, and we're executing against the plan we laid out on August 30. We're pleased to have the first quarter results give us the ability to reaffirm guidance for the full year. We're getting traction. We're seeing early signs of progress for the turnaround, but there is still a ton of work in front of us. So we are by no means declaring victory. This is the beginning. This is the beginning of the turnaround for the Campbell Soup Company. Thank you all for joining us this morning. We look forward to reporting to you back on Q2 earnings call. Have a great day. And for those in the U.S., a very happy Thanksgiving. Thanks, everyone.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program, and you may all disconnect. Everyone, have a wonderful day.