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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Campbell Soup First Quarter 2020 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions) I would now like to hand the conference over to your speaker today, 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. Good morning, everyone. Welcome to Campbell's First Quarter 2020 Earnings Call. As usual, we've created slides to accompany our earnings presentation. You'll find these slides posted on our website this morning at investor.campbellsoupcompany.com. This call is open to the media who participate in a listen-only mode.

Turning to Slide 3. 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 3 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.

On Slide 4, you can see what we plan to cover today. With us on the call today are Mark Clouse, Campbell's President and CEO; and our new Chief Financial Officer, Mick Beekhuizen. Mark will share his thoughts on our performance in the quarter, and then Mick will walk through the financial details and our updated guidance for fiscal 2020. With that, let me turn the call over to Mark.

Mark A. Clouse ***Campbell Soup Company - President, CEO & Director***

Thanks, Ken. Good morning, everyone, and thanks for joining us today. Before I get to our performance, I want to acknowledge that Ken has decided to retire from Campbell and this should be his last earnings call as Vice President of Investor Relations. Ken, thank you for your contributions to the company through the years, and we wish you the best in your retirement.

Our results to start the year were largely consistent with our expectations. As we discussed during our fourth quarter call, fiscal 2020 will be a year of stabilization for the company as we invest in the business, optimize the portfolio and fully implement our new operating model, including further integrating our Snacks division. We continue to make great progress across these focus areas, building upon the foundation we put in place in fiscal 2019.

Looking at our results, organic sales were slightly below year ago, just under 1%. Performance reflected continued strength in the Snacks segment, where sales increased 2%, with contributions across the business. This was more than offset by a 3% sales decline in Meals and Beverage, in large part due to the timing of U.S. soup shipments related to the Thanksgiving holiday. Although this timing shift resulted in a headwind in Q1, I fully expect that to balance in Q2. What I'm most encouraged by is our in-market performance, where we are building momentum across both divisions. In fact, in measured channels, our total company in-market consumption grew more than 1%. Our brands grew or held share in categories representing more than 80% of our total business, and finally, in 10 of our stated 13 priority categories. This was led by gains in soup share for the first time in nearly 3 years.

We continue to execute upon the other key elements of our strategic plan, including a 30-basis-point gross margin expansion supported by productivity improvements and cost savings. We delivered $45 million in cost savings in the quarter, inclusive of our multiyear enterprise program and the synergies from our snacks integration. Adjusted EBIT was better than we expected, although the majority of the upside was timing, resulting in double-digit adjusted EPS growth.

Turning to a discussion of our segments on Slide 7, let's start with meals and beverages. As a reminder, when we spoke last quarter, I indicated we had a great deal of work to do to stabilize this business and the mixed results in Q1 reflect many of those actions. This includes optimization of our portfolio and increased investments. For instance, A&C is up 2% in the division in Q1, including a 15% increase on our U.S. soup brands behind earlier in-season advertising. While overall TDPs in the division were down around 6%. The net of this is improving consumption only down about 1% and share in-market positive. But clearly, we have not yet achieved our overall goal of stabilization. This will take some time, but I am happy with the progress.

As previously mentioned, the difference in our net sales and consumption was primarily holiday timing of shipments, which we expect to recover in Q2. And some proactive decisions that we have made to optimize certain lower profit foodservice volume.

Turning specifically to U.S. soup, while the impact of timing of Thanksgiving shipments was most pronounced on soup, where our condensed varieties and broths play a sizable role in many holiday recipes, we are making encouraging progress in-market on the business. We are injecting much needed investment and continuing to strengthen important retailer relationships, while also rationalizing the portfolio.

As we've discussed before, in my view, the first step in this journey is stabilizing share. This quarter marked the first time in 10 quarters that Campbell gained overall soup share. In fact, we grew or maintained share across the condensed, ready-to-serve and broth categories. This is one of the early indicators of progress on our 3-year journey to revitalize U.S. soup.

On Slide 9, while soup sales declined 3% in the quarter, consumption only declined about 1%. Improved velocities in soup were essentially offset by TDP losses in the quarter. And I'll unpack that more on the next slide. As you can see, the 2-point gap between net sales and consumption is due entirely to the timing of Thanksgiving.

Turning to Slide 10. We are investing more in the category, both on condensed and ready-to-serve, with advertising dollars up. We started our advertising earlier, a month sooner this fiscal year, and while it's early days, the response to our initial investments is encouraging. For example, our new tomato soup advertising went on air September 30, and we saw positive lifts immediately. Through the start of the second quarter, we've improved on those lifts, which are now up 7%. We have also increased our promotional frequency across the portfolio, which is a product of our improving retailer relationships and select high ROI investments.

Moving on to TDPs, as we mentioned back in August, we've experienced distribution headwinds due to historic lack of support and some of our own choices to optimize our soup portfolio. Approximately 80% of these TDP losses are what I would characterize as non-regrettable, meaning, that they were lower-velocity SKUs coming from the tail of our condensed and ready-to-serve segments. However, about 20% are SKUs that should remain, and with the support we've added, we have even higher, stronger velocities. We're pushing hard to get those back. But what is most important right now is to sustain our velocity as we head into the heart of the soup season.

With each month of progress, we are laying the foundation for the sustainment of the category. And next year, with more innovation, the aim is to ultimately expand the category.

In summary, I feel good about the direction in which we are headed on soup, including the improvements we're seeing on Pacific, which we expect to return to top line growth this year. I'm also encouraged by how the portfolio is responding to the actions we are taking. As I've emphasized from day 1, change won't happen overnight.

Looking ahead to the second quarter, we expect that our net sales profile on the U.S. soup business will continue to improve.

In other parts of the division, I'm pleased with the performance of our Prego brand, which continued its strong momentum and maintained its #1 share position in the Italian sauce category. Turning to V8, the shelf-stable juice category, remain challenged as we continue to optimize our portfolio, primarily on Splash. We are reshaping the portfolio around the plant-based positioning of V8 Red, the V8 + Energy product, which is outperforming the category, and our overall single-serve platform. Our new campaign focuses on a master brand story for V8 as the original plant power drink. We believe we have the right to own this space and are pleased with early indications of this investment. While the declines on Splash more than offset these improvements, they aligned with our expectations. It's early days in our efforts to stabilize our Meals and Beverages business, but I feel good about our progress thus far and I have confidence in the team to continue to improve our performance.

Let's look at our Snacks segment on Slide 12. This was another very good quarter for the business, with organic sales increasing 2%, which includes a nearly 4% in-market result, offset by the 1% headwind for partner brands that we discussed last quarter. We continue to drive strong consumption on our 9 power brands, while also making steady progress on our integration plans and value-captured targets, both of which give me further confidence in our strategy, our investments and our team.

Operating profit was comparable to the prior year as we front-loaded marketing investment in the first quarter. We expect our profit performance to improve as the year unfolds.

Once again, 8 of our 9 power snack brands grew or held share in the quarter. The Snacks business is maintaining momentum behind our proven growth model, which we are now deploying across the full portfolio. Marketing investments are up significantly across our 9 power brands with select trade investments to maintain price gaps. These investments continued to pay off. Total Snacks consumption grew nearly 4% in measured channels, while our power brands grew 6%. We are seeing nearly 2x the consumption growth on our power brands versus the rest of the snacks portfolio, as we focus the portfolio and invest behind these differentiated brands that are truly driving the business.

The Pepperidge Farm portfolio continued to lead the way with its 20th consecutive quarter of organic sales growth. Goldfish continued to perform well with increases on the core business. Our Bakery business continued its growth behind buns and rolls, sandwich bread and swirl. Marketplace performance was also strong on our salty snacks brands where we drove double-digit growth on late July, while Cape Cod, Kettle and Snyder's Pretzels continued to respond well to our increased marketing investments with both consumption and share growth. As discussed last quarter, the partner brands in our portfolio are performing in line with expectations, impacting our snack sales by 1%. We expect this headwind throughout fiscal '20.

Let's take a closer look at the progress we're making on our integration and value capture on Slide 14. I remain satisfied with the pace of our progress.

In the first quarter, we continued to deliver additional savings across the 3 key areas: synergies and procurement around packaging, the consolidation of sales headquarters and related operations, and driving operational efficiency in our manufacturing. We expect to continue to deliver savings against these 3 initiatives in the first half of the year, and we're off to a strong start. Looking to the back half, we expect initiatives around manufacturing and logistics to begin to contribute to our overall savings.

In summary, I'm very excited by the progress and potential of our Snacks business. I continue to view it as a unique advantage and differentiated portfolio that is responding well to our investments and the best of both capabilities of the combined businesses.

With that, let me introduce Mick Beekhuizen, who joined Campbell in October after serving as CFO of Chobani for the past 3 years where he helped improve the company's capital structure and supported its growth and expansion. He brings significant experience in debt reduction and cash flow generation, both of which are key priorities at Campbell. Mixed diverse experience will be a tremendous asset as we continue to reposition campbell for sustainable profitable growth.

Now let me turn it over to Mick.

Mick J. Beekhuizen ***Campbell Soup Company - Senior VP & CFO***

Thanks, Mark. Before reviewing our results, I wanted to give you my perspective on the quarter and outlook for the balance of the year. As Mark stated, sales were slightly down, but were largely in line with our expectations. Within Meals and Beverages, soup shipments were down 3 points, of which approximately 2/3 reflects the timing of shipments with the later Thanksgiving holiday.

Consumption remains solid and share trends continued to improve, and Snacks delivered 2% growth, which included a 1-point headwind from partner brands. We are pleased with improving trends in our gross margin as we benefited primarily from productivity improvements, cost savings and pricing, partially offset by cost inflation and trade investments. We continue to make strong progress against our cost savings target of $850 million by the end of fiscal 2022, delivering $45 million of incremental savings in the first quarter, bringing the program to date total for continuing operations to $605 million.

Year-over-year adjusted EBIT increased 6%, slightly better than expected, benefiting from some timing on the cost side. We continue to make progress on our divestiture program, with the sale of Kelsen completed in September, the sale of the European chips business completed in October and the remaining portion of Campbell International expected to close before the end of our second quarter. Proceeds received to date, along with positive cash flow from the business have enabled us to reduce debt levels by approximately $1.5 billion over the past 12 months.

Lastly, we are updating our fiscal 2020 sales guidance to reflect the sale of the European chips business, which was not included in our guidance previously provided in August. Our underlying outlook for organic sales as well as adjusted EBIT and adjusted EPS remains unchanged. Overall, we had a solid quarter, and we are currently on track to achieve our fiscal year goals. Given the seasonality of our business, combined with increased marketing support in the second quarter, we expect to see our performance through the first half to be more in line with our full year guidance, excluding the impact of the 53rd week, which obviously falls in the second half of the year. I'll now review our results in more detail.

For the first quarter, reported and organic sales decreased 1% to approximately $2.2 billion, as gains in Snacks were more than offset by declines in Meals and Beverages. Adjusted EBIT increased 6% to $392 million, as sales declines were more than offset by lower adjusted administrative expenses, higher adjusted other income and improved gross margin performance. Adjusted EPS from continuing operations increased by 10%, or $0.07, to $0.78 per share due to our adjusted EBIT performance and lower interest expense.

Breaking down our net sales performance for the quarter, organic net sales were down 1%. Overall volumes were stable as declines in Meals and Beverages were offset by increases in Snacks with gains across much of the portfolio. Sales benefited by slightly less than 1 point from pricing actions, primarily within Meals and Beverages, taken in fiscal 2019. Promotional spending investments within both Snacks and Meals and Beverages negatively impacted net sales by a little over 1 point. The impact from currency translation in the quarter was neutral as we refocus our portfolio on North America. We would continue to expect currency translation impact to be minimal. All in, our reported and organic net sales were down just under 1%.

Our adjusted gross margin percentage increased by 30 basis points in the quarter to 33.8%. Cost inflation and other factors had a negative impact of 170 basis points. On a rate basis, overall input prices increased by approximately 3%, reflecting higher prices on steel cans as well as areas such as vegetables and flower. Net pricing led to a 30 basis point decline in adjusted gross margin, as the benefits from less pricing actions were more than offset by increased promotional spending.

Going the other way, our ongoing supply chain productivity program contributed 130 basis points, and our cost savings program also added 90 basis points to gross margin expansion. Mix was favorable by 10 basis points, bringing the gross margin percentage to 33.8%. We are pleased with these gross margin results as we continued to achieve improvement in performance.

Moving on to other operating items. Adjusted marketing and selling expenses decreased 1% in the quarter to $206 million, as increased investments in advertising and consumer promotion were more than offset by the benefits of cost-saving initiatives. Adjusted administrative expenses decreased 7% to $126 million, primarily reflecting the benefits of cost-savings initiatives. And while not shown on the chart, adjusted other income was $8 million, compared to 0 in the prior year period. The year-over-year impact of $8 million contributing to our EBIT performance in the quarter reflects lower losses on investments and higher pension and postretirement benefit income.

Going to the next slide, we have continued to successfully deliver against our multiyear enterprise cost-savings program. This quarter, we achieved $45 million in savings, inclusive of Snyder's-Lance synergies. To date, that brings our savings for the overall program to $605 million.

We expect incremental cost savings in the range of $140 million to $150 million for the full year and continue to track to our cumulative savings target of $850 million by the end of fiscal 2022. For additional perspective on our performance, the next chart breaks down our adjusted EPS change between our operating performance and below the line items.

Adjusted EPS increased $0.07 from $0.71 in the prior year quarter to $0.78 per share. Adjusted EBIT had a positive $0.05 impact on EPS. Net interest expense declined year-over-year by $10 million, delivering a $0.03 positive impact to EPS, as we have used proceeds from completed divestitures and our strong cash flow to reduce debt. Lastly, our adjusted effective tax rate of 24%, while slightly higher than prior year, rounds to no impact, completing the bridge to $0.78 per share.

Now turning to our segment results. In Meals and Beverages, sales decreased 3% to $1.2 billion, primarily reflecting declines in U.S. soup as well as foodservice, which were partially offset by gains in Prego pasta sources. Sales of U.S. soup decreased 3% with shipments lagging in-market consumption by 2 points, which were negatively impacted by movements in retailer inventory levels in both broth and condensed soups, related to the timing of the Thanksgiving holiday.

Sales of ready-to-serve soups were comparable to the prior year. As mentioned, our soup share trends continued to improve, gaining 50 basis points of share in the quarter. Segment operating earnings declined 3% to $282 million. The decline was driven primarily by cost inflation and sales declines, offset partially by the benefit of cost-savings initiatives and supply chain productivity programs.

In Snacks, sales in the quarter increased 2% to approximately $1 billion. This performance was driven by gains in Goldfish crackers as well as gains in fresh bakery products, Pepperidge Farm cookies, and Cape Cod and Kettle brand potato chips, offset partially by declines in the partner brands. As we discussed with you last quarter, we are continuing our planned prioritization of select partners to reduce complexity and improve execution. And as Mark mentioned, 8 of our 9 snack power brands grew or held market share in the quarter.

Segment operating earnings of $125 million were comparable to the prior year as the benefits of cost-savings initiatives and supply chain productivity programs were offset by cost inflation and increased marketing support.

Cash from operations for Q1 fiscal 2020 decreased year-over-year by $49 million to $182 million, primarily related to the year-over-year increased payout of incentive compensation. We continued to make progress regarding our working capital management efforts. And while cash flow for the year will benefit from these efforts, we expect the impact to be at a lower level of improvement than what we achieved in fiscal 2019.

Cash from investing activities increased by $369 million to $269 million, primarily related to the net proceeds from the sale of Kelsen and the European chips business. The cash outflow for capital expenditures was $98 million, $13 million lower than the prior year. We continue to forecast CapEx of approximately $350 million for fiscal 2020.

Cash outflows for financing activities were $453 million, compared to $148 million a year ago. The year-over-year incremental cash flow reflects the use of divestiture proceeds to pay down debt levels. Dividends paid in the amount of $107 million were comparable to the prior year, reflecting our current quarterly dividend of $0.35 per share.

Overall, we continue to make progress to delever our balance sheet. Net debt of $8.2 billion declined by approximately $1.5 billion compared to the prior year, as proceeds from the completed divestitures, along with positive cash flow generated by the business, were used to reduce debt. We expect to complete the remaining divestiture of Arnott and certain other international businesses in the second quarter of fiscal 2020, and we will use the net proceeds to further reduce our debt level. With our current outlook, we expect our net debt to adjusted EBITDA ratio to be well below 4x by the end of fiscal 2020.

Now I will review our updated guidance for continuing operations for 2020. The only thing that has changed is that we are updating our guidance for the sale of the European chips business, which we completed in October. The impact from this divestiture was not included in the guidance previously provided on August 30. Unlike other recent divestitures, primarily given its size, it is not treated as a discontinued operation and has been, through the date of sale, included as part of continuing operations. This divestiture will have about a negative 2 percentage point impact on sales for the balance of the year and no impact on adjusted EBIT or adjusted EPS.

Also, as previously discussed, fiscal 2020 is a 53-week year, resulting in an additional week, which we believe to have about a 2-percentage-point impact across net sales, adjusted EBIT and adjusted EPS. As a result, we expect reported and organic net sales of minus 1% to plus 1%, adjusted EBIT of plus 2% to plus 4% and adjusted EPS of plus 9% to plus 11%, or $2.50 to $2.55 per share. And for clarity, our outlook for organic sales excludes the negative 2-point impact from the sale of the European chips business as well as a 2-point contribution from the 53rd week.

Overall, I'm excited to be part of the team and pleased with the results of my first quarter with Campbell's. I will now turn it back over to Mark.

Mark A. Clouse ***Campbell Soup Company - President, CEO & Director***

Thanks, Mick. Before taking your questions, I wanted to add a new section to our comments for this quarter and the remainder of the fiscal year. As we discussed at our Investor Day, transparency and clear milestones are important to track the progress of our turnaround.

You may remember this page from June, which I believe continues to serve as a great scorecard for our progress against the key metrics we outlined. I feel very good about the underlying progress we have made to start the new fiscal year. While we have more work to do in terms of stabilizing the top line, we are slightly ahead of schedule on margins and EBIT. And I'm very pleased with our progress around building a winning team and culture, especially with the speed at which we have implemented our new operating model and how we are adding new skills and capabilities while saving cost. On balance, we are doing what we said we would do. With that, let's take some questions.

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

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Andrew Lazar from Barclays.

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

Good morning, everybody, and thanks for all your help over the years, Ken, and welcome to you, Mick.

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

Thanks, Andrew.

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

Two questions from me. I guess, first, Mark, in thinking about soup at this point, on the one hand, shipments were down this quarter against an easier comp. But on the other, there was the negative impact from the late Thanksgiving that you talked about, some of which should reverse. And also Campbell gained share, obviously, for the first time in 10 quarters, I think you said. So perhaps you can put these results maybe in broader context with where you are in the overall soup turnaround plan, for starters. And then second, maybe for Mick, just the cost savings and synergies obviously came in strongly at $45 million in the first quarter, well ahead of, I guess, what would have been implied by your goal of $140 million to $150 million for the full year. So was such a strong first quarter performance included in the original plans for the year, if not, like what drove the upside? And maybe how do we think about the cadence of savings and synergies for the remainder of the year?

Mark A. Clouse ***Campbell Soup Company - President, CEO & Director***

Great. All right. So why don't I hit the soup question first, Mick, and then we'll talk about the phasing of the savings. I think it's how I would categorize soup for the first quarter is essentially very much in line with what we kind of described in the fourth quarter if we set aside the timing of the Thanksgiving shipments, where you had an overall soup business that was essentially down about 1%. And the balancing act here is, let's start with the things that we're feeling very good about. And in all honesty, a couple of these areas were better than I expected for where we are in the journey. And I think it starts with share. As we've said all along, really, what we want to do as a first step is kind of slow down or stop the share loss that we've been experiencing over the last several years. And to have done that in condensed, ready-to-serve and in broth in the same quarter, I think, was a very important milestone and continuing to move us forward. And if you think about why and how that happens, I think the part that probably has me the most excited is the response that we're seeing in-market to the investments we're making. And if you think about this as a continuum through the year of investing, or at least through the first 2 quarters of investing in different parts of the business, the first investments we made were coming back on-air with our chunky advertising, bringing mom back into the picture, I'm sure you've seen the ads, as well as the advertising that we have on the condensed businesses where we focus on the eating soups, so primarily, tomato and chicken noodle.

And in both cases, the response to that has been very, very strong. And if you look at the more recent weeks that are going to fall into Q2, you'd see that momentum accelerating even further. In fact, our ready-to-serve businesses in the latest 4 weeks are up about 7%. And our condensed eating soups are up almost double digits. And so it was both having very strong share performances as well.

And I think a big part of it is we're tackling head on some of the challenges that the business had. So our condensed ads are focused on driving the quality perception. If you see how the ads are constructed, we're actually embracing the can and really connecting it to the quality of the food inside, whether that's no added preservatives on chicken noodle or whether that's 6 tomatoes or romancing it in the occasion of the -- of grilled cheese sandwich and tomato soup, which we haven't advertised in a long time, and I think those are all very, very strong. And what we're going to see now in the weeks ahead is condensed on the cooking side and our broth business, which are both areas that really didn't start until Q2.

I also feel good about how our price gap management and our differentiation strategies are going as it relates to private label. We've seen a major turnaround in the share relationship on condensed as it relates to private label. And although I am still a little weary on the broth side, and I'll talk about that in a second, I am happy to see the recovery of share on condensed that we had lost over several years.

And no doubt, underlying that, too, is this improvement, I would say, in our retail partnerships, where people are embracing the fact that we're coming back to the table with a vision and a direction. And I think as this continues to build momentum, we could see velocities, which were up 4% in Q1. I think we could see those accelerate as we go forward.

And as we said, in the next iterations, adding innovation, seeing the full impact of advertising over time, I would say, on balance, I feel really good about where we are right now. I think the headwind, as we talked about in the fourth quarter is primarily the distribution side. And again, if I'm honest here, I think 80% of this is what I would call non-regrettable, as I described in my remarks. And about 20% of it, I think, are things that should be in there. And I think as we continue to build the case on velocity, we're going hard at getting those back in. And I think we'll experience success if we're able to maintain this in-market momentum that we've seen. I mean, the fact of the matter is we're living a little bit with the history of not having supported the category and the businesses. And a lot of these decisions on the category and the resets were made on a historical set of performance factors that honestly warranted some rationalization.

As I said, I think the name of the game right now is keep, month in, month out, building our case for the category and showing the demonstrated improvement and the impact of focusing on the right areas. And then the other 2 areas that I think are working as headwinds, one is Pacific, but we're seeing steady increase. In fact, if you look at the latest 4 weeks on Pacific, you're actually seeing a decline in-market of just over 1%, which is a significant improvement from where we've been. And I do expect that to swing in the positive territory as the year unfolds. So still a headwind, but I think, significantly improved from the double-digit declines we experienced.

And then broth is a little bit of a wildcard. I'm anxious to see these next 2 weeks, which are the key weeks of Thanksgiving, to really see if both the advertising and some of the price gap management we're doing is going to be enough to balance what is an aggressive growth trajectory that private labels had. But I do think with the support in Pacific, which obviously plays an important role in broth for us, kind of having support for the first time in a lot of years we're, I would say, cautiously optimistic of how that looks.

So that reality of where we are, if you think about this going forward, I think the drivers are not going to change materially in Q2. Obviously, we're going to get the benefit of the timing. I think more of the underlying variables are going to be roughly the same. But again, I wouldn't be surprised if we continue to build some momentum in a few areas as well. So net-net, I kind of feel like we're right where we wanted to be in Q1 and some green shoots and some areas that we still need to work on.

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

Great. And then I think Mick (inaudible) on the cost base cadence?

Mick J. Beekhuizen ***Campbell Soup Company - Senior VP & CFO***

Yes. So with regard to the cost savings, it's a good question. I spent quite a bit of time in it since joining the company, particularly, obviously, the cost-saving programs and as well as the focus on the synergies with regard to Snyder's-Lance. And going -- looking at the first quarter, generated about $45 million of cost savings. We're off to a good start. I feel good about it, I feel good where we are. That being said, it's still early in the year. And all that, kind of looking at the details, I do feel very good about the target of $140 million to $150 million for the full year.

Mark A. Clouse ***Campbell Soup Company - President, CEO & Director***

Yes. I mean, I think the reality, Andrew, is that we are a little bit ahead of where we expected as it relates to EBIT. And some of that is the reflection of cost savings coming a little faster. We don't necessarily see them to be incremental on the year, but we're always happy when we can get the savings a little faster. But I would suggest that the upside in Q1 is a little bit of timing that I would expect to smooth out over Q2.

And as we -- as Mick said in his comments, we're kind of expecting to exit the first half pretty much right down the center of the fairway as it relates to where our 52-week guidance sits relative to both kind of top end and bottom line. And maybe a little bit of opportunity if we continue to see some of that momentum on soup and can continue to move forward on savings. But for where we are right now, we see a little bit more of it as a timing factor.

Operator

Our next question comes from Ken Goldman from JPMorgan.

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

Two for me. First question, you talked about shipment's trailing consumption, obviously, thanks to the Thanksgiving shift. Mark, as we think about the first, I guess, few weeks so far of the second quarter, have you seen shipments outpace consumption as the shift reverses? So that would be my first question. And then my second one is, on the 20% of distribution reduction that was, I guess, regrettable is the word, some of your peers -- some of your customers have talked lately about how retailers are shifting their shelf sets, maybe simplifying them to reduce some out of stocks. Are you seeing any impact on that on your business as far as you can tell? I'm just trying to get a sense of how -- where the sort of distribution losses are coming from that you're not necessarily hoping for.

Mark A. Clouse ***Campbell Soup Company - President, CEO & Director***

Yes. No, it's a great question. First, on the phasing. So what I would tell you is, let me kind of hit it both on the shipment and the consumption side. So on the shipment side, I would say we see a fair amount of the first month of the quarter, and it's building very strong confidence that this idea of the phasing shifting from Q1 to Q2 will, in fact, occur.

I think on the consumption side, we also continue to be very encouraged by what we're seeing in the latest 4-week numbers. There are some of the better performance on, like I said, the places that have gotten the majority of the advertising. However, what I will say is the next 2 weeks of consumption that we don't have will be inclusive of the key weeks of the holiday.

So I would tell you, in a couple of weeks from now, I'll have a very good feel for how we fared through Thanksgiving, which of course is a pretty quick turn from that one into Christmas and the December holiday period. So we'll have a little bit of foreshadowing there. But like I said, all of the indicators I see right now are, for the most part, either very much in line or, in some cases, a little bit ahead and more positive than I might have expected at this point.

And then let me talk about the distribution. It's -- I do think that there is a reality of retailers really rationalizing their space and understanding where the value creation is happening in the store. And in some cases, that may be reducing assortment to create greater slots for core items that may be turning at much faster pace. And I think that we are seeing a little bit of that within the world of soup. And in our mind, that's okay, right? That's where a lot of the non-regrettable rationalization is happening. If you take the last 10 items within our condensed soup business that's in the third and fourth quartile as it relates to velocity, those aren't our most efficient SKUs anyway. And so the idea that we get to a little bit more focused and tighter set, and especially given some of the early successes we're having on supporting the core, I would say we feel pretty good about that and kind of are managing it and expecting it.

I think the 20%, in some ways, has to do with the fact that I would describe it a little bit as collateral damage as retailers may have kind of cut a bigger piece, given a backward look at the performance of the category and our businesses. And I think that is a risk that we certainly identified and understood and I think we'll reverse that.

I don't think it's a -- the key that I think people should be focused on is do we think it's systemic and going to continue. And the answer is, I do not believe that will happen. I think we're getting to a very good set now where the foundation of the distribution, I need to get that 20% back, which I think we're building some good cases to do it. And then build smart innovation on the top of that. Things like our convenience platforms, where over time, we're going to see a range of options that include 7-ounce that include our 11-ounce shipping, going up all the way to 12-ounce, which is a little bit more of a meal replacement size. This combination of bringing more relevant formats into the aisle, that's what we're making some room for, and I think that we're going to have a very strong story going forward.

So I think your insight is right. I think we're certainly experiencing it here, but I also feel good that we're turning the tide. And even as we're having conversations with customers, we already have agreement in certain areas where we're going to bring stuff back or that the acceptance of our innovation so far has been very, very strong.

Operator

Our next question comes from Bryan Spillane from Bank of America.

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

A couple of quick ones for me. First, I'm not sure that -- I don't know if I missed it or not, but did you give an outlook for capital spending for the year?

Mick J. Beekhuizen ***Campbell Soup Company - Senior VP & CFO***

Yes, we did. $350 million. It hasn't changed. It's basically in line with what we previously provided.

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

Okay. And then second, there's been a lot of discussion about shipments versus consumption in soup. So I guess, just for the full year, should we expect that your shipments would be in line with consumption? Or is there anything that would cause the 2 not to sort of converge for the full year?

Mark A. Clouse ***Campbell Soup Company - President, CEO & Director***

No, I think you should expect over the course of the year for them to be pretty close. It's always a little -- there's always a little bit of choppiness as you think about timing. So I would, as you look forward, really think about where the key holidays hit. We'll have Easter here ahead of us in the quarters ahead. But I think the full year should be pretty close where consumption and shipments should be aligned. We see no reason to expect a material step down in further inventory levels and/or any other causal factor that would change it beyond what we're going to experience a little bit from quarter-to-quarter.

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

Okay. And then just last one, you made some comments -- commentary about expecting that debt-to-EBITDA would be meaningfully below 4x by year-end. And so I guess, maybe, Mark, if you could just, philosophically, if you're getting at that point where there's some flexibility with free cash flow, just how you think about capital allocation, share repurchases, raising dividends, investing back in the business, just how we may think about just how you're thinking about that if you're starting to sit on a pile of money.

Mark A. Clouse ***Campbell Soup Company - President, CEO & Director***

Yes. So as we sit here today, the capital priorities would be consistent with what we previously communicated, where, essentially, it's about supporting the growth of the business, reducing our debt and paying our dividends, right? That's kind of been the framework of what we've been living into.

I do think, and I don't think this day is necessarily today and for the most part probably won't be within this year, but as we get ourselves back closer to that 3x level, I do think we're open to that conversation. Of course, we'll continue to maintain kind of that -- those top 2 of -- or top 3 of investing in growth. Of course, managing that debt level down and paying our dividend. But then at that point, I think it's right to have the conversation on would we look at other tuck-in M&A that might fill in some holes within our portfolio or be valued combinations with some of the businesses we have today.

I would not expect us to be heading into transformational and bigger M&A. I just don't think that's where we are right now in the journey, but I could imagine that as we get into a reasonable debt level that we might look at some smaller contributions as well as, of course, always, although not approved today, I think there's always room for conversation around share repurchasing or increasing dividend, depending on the circumstances and kind of how we view the outlook going forward. So I think that conversation happens kind of as we're exiting this year into next year.

Operator

Our next question comes from Nik Modi from RBC.

Nik Modi ***RBC Capital Markets, Research Division - MD of Tobacco, Household Products and Beverages & Lead Consumer Staples Analyst***

Mark, maybe you can just provide some consumer diagnostics. I mean, clearly, the category or at least Campbell Soup business has been improving. Can you help us kind of understand what's going on at the consumer level? Are you bringing lapsed consumers back? Are these new consumers? Are you just share shifting? Any context around that would be helpful.

Mark A. Clouse ***Campbell Soup Company - President, CEO & Director***

Yes. So I think there's a couple of dynamics that are happening at the consumer level. I think -- I'll put it into kind of 3 buckets. The biggest bucket, I do see us influencing these lapsed users, which is our primary initial objective. And this is -- we know that the primary barrier to that is the perception of the product. And so as we have gone aggressively after quality and kind of context, right? When you think about the wholesomeness of tomato soup and grilled cheese, which I think all of us here are a little bit, I guess, pleasantly surprised at how well consumers have responded to that message as well as the understanding that giving people a bit more permission with our chicken noodle soup with no added preservatives is making a big difference is targeting right there. In fact, we've seen slight tick up in penetration, which is something that I don't know that we can determine when the last time we saw that occur.

So that -- I think that's one area. Two, I think the other thing that is really helping us at the consumer level, is this idea of new consumers entering into cooking. So a lot of discussion around millennials over the years. And the reality is that as millennials age, we are finding them participating more and more in in-home preparation. We call it quick scratch cooking which is essentially assembling several components to make a meal. And of course, our broth business, both Swanson and Pacific, as well as our condensed cooking soups, like cream of mushroom and cream of chicken, are very, very easy, convenient. And again, as we reinforce the message of more fresh cream, no added preservatives for that millennial audience, we're beginning to find a role within their lifestyle. And that relevance is really important for us, as you imagine, our ability to turn the category over time.

And then I think the third area that we're, although early days, that I continue to be very encouraged by is the performance of our sipping soups, which allows us to kind of move into a more snacking occasion, and we're doing that with the Well Yes! platform right now. But as the year unfolds, we'll be rolling out the bone broth, which is a big protein nutritional play, which we know is very relevant, along with some continued expansion of different flavors.

All 3 of those dynamics -- that's why this is not a simple turnaround and it takes some time, all 3 of those areas are places where we're influencing consumers positively. And the good news in all of it is, as we think about those actions that we're taking, they also help us differentiate within the category. And that differentiation is why I'm happy to see the share improvement because, again, I think our opportunity to improve, it's a little bit of a heavier lift to really get the category fully moving, but if we can at least ensure that we're winning the fight within the category, growing share and all the actions I just described are helping us do that, that's what we're kind of looking for. Does that help, Nik?

Nik Modi ***RBC Capital Markets, Research Division - MD of Tobacco, Household Products and Beverages & Lead Consumer Staples Analyst***

Yes, very helpful. I'll pass it on.

Operator

Our next question comes from Jason English from Goldman Sachs.

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

Very much appreciate it. Ken, we'll miss working with you and good luck on the next chapter. And Mick, welcome aboard. Looking forward to getting to know you more. A couple of quick questions. First, sort of housekeeping. I think you mentioned a couple of times, EBIT's already ahead of schedule because of some timing impacts. And I noticed in the press release, you referenced some things like gains on open commodity contracts and some pension income. Can you quantify what these sort of tailwinds were and when you expect them to online, to reverse the other way?

Mick J. Beekhuizen ***Campbell Soup Company - Senior VP & CFO***

Sure. Yes, let me take that, Mark. You can add on the back end. But just if I look at kind of -- I tend to look at probably a little bit more across the P&L. And if you then look at kind of Q1 EBIT and break down the different components, that's probably the easiest way to look at it. You see that, basically, there was a slight top line decline, which was then basically offset by some gross margin improvements. Then within sales and marketing, we had savings from our selling expenses slightly more than offset our increased marketing investments. And then if you look at the admin expenses, those were primarily driven by savings from the restructuring of our operating model. And then finally, within, particularly, other income, there were some onetime items that I described more in detail, as you know, in my prepared remarks.

Mark A. Clouse ***Campbell Soup Company - President, CEO & Director***

Yes. So I think part of it, Jason, is the onetime items are just going to give a little bit of a bump into Q1 that was contemplated in the year, but certainly shows Q1 up a little bit. That, obviously, we expected. I do think some of the underlying improvement on the cost side is what we were pleasantly surprised with a little bit earlier, both on the operating model within this admin costs and SG&A side as well as a little bit of some of the cost savings that sit within the selling and marketing number.

One of the numbers that's really important to think about is our marketing and selling was down about 4%, but that was driven primarily by about a 9% decline on the selling which had to do with a little bit of what we've done through the reorganization. Our marketing was up about 4%, but even more importantly within that, our A&C was up 12% in the quarter and Snacks was up 23%, Meals and Beverage was up 2%, but soup was up 15%. So I think what happened was we got a little bit better inflow of those savings in Q1. I would expect that most of that should smooth out in Q2. It's not like we pulled fourth quarter savings into Q1, I think it was more kind of months of timing than it was a whole year. So as I said, I think if I'm looking at the first half, I'm kind of expecting the first half total to look very consistent with what our full year outlook or guidance is.

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

That's helpful. And I think you partially answered my second question. Which was the margin profile of Snacks, given the over-delivery on savings, it was surprising for me to see margins sequentially go lower into this. And even from a year-on-year, they look softer than what we would have expected. The 23% jump on marketing in Snacks, how much of -- can you quantify the drag on margins, just so we can get a slightly cleaner read on sort of what's happening with the underlying margin profile for that business?

Mark A. Clouse ***Campbell Soup Company - President, CEO & Director***

Sure. Yes, happy to do that. Yes. I think if you look at kind of the building blocks as you went through it, our cost savings and our productivity that was in there was about the same amount as the investment. And that's why you're seeing a relatively flat bottom line. And the way to think about the year on Snacks, this might help give you perspective is, if you remember, we kind of started this investment model on Snacks in Q3. And so if you imagine that synergies being relatively stable across the 4 quarters, your first couple of quarters are going to have material steps up in the marketing and advertising as well as some investment in trade that we're still working on to get those price points right, primarily on the Snyder's-Lance businesses.

As you go through the year, the incrementality of what we're spending from a marketing standpoint will drop and more of those cost savings will come through. So I think as you look at subsequent quarters, I would expect the margin to improve in each quarter. And by the time you get to the end of the year, I think it's probably going to be much closer to what you might have modeled for the year with all of the puts and takes we've given you.

Operator

And our next question comes from Chris Growe from Stifel.

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

Welcome, Mick. And Ken, we wish you all the best. Just to follow on your answer there, and I think, Mark, you mostly answered it to Jason's question. But obviously, some of this timing differential has a negative effect on the second quarter. At the same time, you have shipments that hopefully will benefit the second quarter. So I was just trying to get my head around, are you providing any color around Q2 EPS, just given all the moving pieces in that quarter?

Mark A. Clouse ***Campbell Soup Company - President, CEO & Director***

Yes. Chris, I was trying to avoid giving direct quarterly guidance. But I do think the best way I can give it to you is in the context of kind of what we expect for the first half. And if you kind of plot out what I'm essentially saying, your absolute -- your variables are absolutely right. So a little bit of opportunity on the top line. But again, remembering that it's off the base and relative to what we would have experienced perhaps on the downside in Q1 to kind of be right where we are guiding for the first half in totality.

And I think, for EBIT, we'll be roughly in that same bucket as what we're guiding for the year on the 52-week number on the EBIT side. And I do think that will flow through to EPS. Although remember, the big driver for the year as we look at the delta between EBIT and EPS is obviously the interest. And as we expect to complete the divestiture process in Q2, that then will be the unlock for kind of accelerating EPS a little further. So take that into mind as you're thinking about how building those -- all those pieces back in to get to a Q2.

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

Okay, that's great. That was good color.

Mark A. Clouse ***Campbell Soup Company - President, CEO & Director***

That's what I can give you without giving you a quarterly guidance.

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

That's fine. No.

Mark A. Clouse ***Campbell Soup Company - President, CEO & Director***

Hopefully, that's helpful.

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

I understand. It was helpful. Yes. Just one quick follow-up then on the gross margin. I just want to understand the -- is the inflation more front-end loaded through the year? How do you expect the gross margin to perform through the year? And I just want to overlay on that, some of the promotional spending, does that kick up, say, in Q2 and Q3, which have a little bit more of a incremental drag on the gross margins? I'm thinking about how you're investing back in the business here.

Mark A. Clouse ***Campbell Soup Company - President, CEO & Director***

Yes. Again, I think, call it, over the years of doing this, I'm always a little hesitant to direct the gross margin. But I do think the way I would expect the building blocks to work is we do think inflation is a bit front-loaded. We do expect that to have some moderating effect over the balance of the year. The investment profile doesn't really have a major spike in any of the quarters. I mean, I think if there was a little bit more, it would be around this holiday period, which kind of sits a bit in Q1 and Q2. So there's a little bit of an uptick there, as I talk about some of the investment in Snacks, in particular. So that might be a little bit of distortion early on.

But I think for the most part, we expect this kind of profile of a inflation rate that's a little higher than our base productivity, offset by cost savings, of which half will go to the business. And again, that half part is in gross margin. Part of it is in admin costs. And then, of course, the other half of that cost savings is going into the investment.

So that $140 million to $150 million, half of it is going to the bottom line, spread between margin and below margin, and the other half goes to fund the investment uptick that we're making. So that's kind of the way the year looks. And for the most part, I think on the gross margin side, you'll see pretty steady pacing through the year.

Operator

And that does conclude our question-and-answer session for today's conference. Ladies and gentlemen, this now concludes today's call. Thank you for your participation, and you may now disconnect. Everyone, have a wonderful day.