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CPB - Q4 2017 Campbell Soup Co Earnings Call

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OVERVIEW:

Co. reported 4Q17 net sales of $1.664b and adjusted EPS of $0.52. Expects FY18 sales to change by minus 2% to 0%.

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Campbell Soup Fourth Quarter 2017 Earnings Call. (Operator Instructions) As a reminder, today's conference call is being recorded.

I would now like to turn the conference over to Ken Gosnell, Vice President, Finance Strategy and Investor Relations. Please go ahead.

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

Thank you, Candace. Good morning, everyone. Welcome to the Fourth Quarter Earnings Call for Campbell Soup's Fiscal 2017. With me here in New Jersey are Denise Morrison, President and CEO; and Anthony DiSilvestro, CFO.

As usual, we've created slides to accompany our earnings presentation. You will find the slides posted on our website this morning at investor.campbellsoupcompany.com. This call is open to the media, who'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 risks. Please refer to Slide 2 or our SEC filings for a list of factors that could cause our actual results to vary materially from those anticipated in forward-looking statements.

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

Lastly, please mark your calendars for our planned fiscal 2018 earnings dates. We plan to release earnings on: November 21, 2017; February 16, 2018; May 18, 2018; and August 30, 2018.

With that, let me turn the call over to Denise.

Denise M. Morrison - *Campbell Soup Company - CEO, President & Director*

Thank you, Ken. Good morning, everyone, and welcome to our fourth quarter call. Today, I'll focus my remarks on the marketplace, our performance, our plans and our outlook for fiscal 2018.

As we've discussed previously, the operating environment remains challenging across the food industry. While macroeconomic conditions in the U.S. continued to improve in the quarter, the seismic shifts we've described in the past continue to alter the consumer, food and retail landscapes. These disruptions include shifting demographics, changing consumer preferences for food with a focus on fresh and health and well-being, and increased snacking behavior; a range of socioeconomic forces and technology advancements that are reshaping the consumer shopping experience.

Additionally, there is no denying that the retailer landscape is changing dramatically with the emergence of new players, new store formats and evolving business models. Several variables are at play, including value players expanding their presence in the U.S., the growth of store brands and the explosion of e-commerce and meal delivery services disrupting the market. We expect conditions to remain hypercompetitive for the foreseeable future.

In this environment, what is Campbell doing to compete differently? First, we're prioritizing investments, aligning our resources to future growth areas and creating opportunities from the disruptions in the market. Through our growth agenda, we're focusing on 4 strategic imperatives to strengthen our core business and, at the same time, expand in the faster-growing spaces.

Second, we redesigned our retailer selling and support capabilities in June of fiscal 2017. Our new integrated structure aligns our sales and marketing resources to drive growth with existing customers and to pursue business in new channels.

We're rethinking our approach to collaborating with key customers around platform merchandising, such as health and well-being and snacking. We're enhancing our data-driven shopper insights, and through our strategic foresight's work, we're better positioned to drive innovation and customization across both the perimeter and in the center store. Most customers have welcomed this new level of engagement and collaboration.

Third, we've established a distinct digital e-commerce business unit to address both pure-play and omnichannel opportunities.

Finally, we believe that investing to differentiate our brands is the best way to appeal to consumers and build loyalty in a crowded market.

Make no mistakes, these shifts are accelerating and converging, and they're having a dramatic impact on Campbell and across the industry. In this environment, sales growth remains challenging.

With this as backdrop, our performance in the quarter was mixed. Organic sales declined 1%, while adjusted EBIT and adjusted EPS both increased double digits. Despite multiple headwinds, we finished fiscal 2017 within our guidance and delivered another year of growth in adjusted EBIT and adjusted EPS.

For the fourth quarter, our Global Biscuits and Snacks performance was slightly below what I would have liked in terms of the top line, but the team delivered a double-digit earnings increase versus the year-ago quarter. Americas Simple Meals and Beverages continued to deliver against its portfolio role with sales performance in line with the categories in which we compete and margin expansion.

I'm not happy with our performance in Campbell Fresh but remain encouraged by the progress we've made this year to address our key executional issues. C-Fresh delivered modest sales growth, and we expect this business to return to profitable growth in fiscal 2018.

Let me now offer my perspective on each division's performance and highlight our plans for fiscal 2018, starting with Global Biscuits and Snacks. Overall, I'm satisfied with the performance of the division in the quarter. Organic sales were comparable to a year ago with expected gains in Pepperidge Farm, but below my expectations in Arnott's due to our performance in Indonesia. Importantly, the business delivered a double-digit increase in operating earnings.

I'm particularly pleased with the performance of Pepperidge Farm snacks, especially the Goldfish brand, which once again delivered strong sales results. In the quarter, growth was fueled by larger pack sizes. Over an extended period of time, this team has delivered a steady cadence of innovation and effective marketing programs, while also expanding the brand's health and well-being credentials with organic and whole grain offerings. I'm also enthusiastic about the launch of our new Pepperidge Farm Farmhouse cookie line, a thin crispy cookie made with simple ingredients. Farmhouse is on track to be the biggest Pepperidge Farm snacks launch in more than a decade.

In Australia, the team delivered growth in biscuits behind the return to the original version of Arnott's Shapes Crackers. Additionally, our new Tim Tam gelato-inspired varieties performed well. Segment operating earnings increased 35% as a result of our strong enabler program, a return to more normal marketing levels and reduced administrative costs.

Looking ahead to fiscal 2018, we expect to grow sales in Global Biscuits and Snacks. In Pepperidge Farm, we intend to dial up our real food and health and well-being efforts by emphasizing our goodness credentials. New snacking consumer insights will also shape how we connect with our consumers, develop new packaging formats and adapt to new retail environments. In particular, we have plans to extend Goldfish to older kids, a new demographic for the brand. We'll continue to execute the successful marketing strategy that has led to both sales and share gains this year by investing behind our proven Milano Moments campaign. We also plan to build on the successful launch of Farmhouse cookies and drive increased trial of Tim Tam biscuits in the U.S. from both traditional retailers and e-commerce channels.

In Australia, we have plans to strengthen our core with new varieties of Shapes crackers, expand our health and well-being offerings with new Arnott's Vita-Weat cracker chips and Cruskits products, drive on-the-go snacking with a variety of new multi-pack single-serve products and we've recently launched an integrated Arnott's master brand advertising campaign to support the business.

Turning now to Campbell Fresh. I'm not satisfied with the performance this quarter, but I'm optimistic that our key executional issues are now largely behind us. In the fourth quarter, Campbell Fresh returned to growth with a modest 1% increase in sales driven by Garden Fresh Gourmet and our Farms business. However, sales in the beverage business declined slightly as we continue to deal with capacity constraints, largely due to newly enhanced quality processes we've put in place, both in our plant and with our new co-packer.

As we've previously said, we began increasing promotional activity towards the end of the fourth quarter, and we continue to expect to ramp up to normal promotional levels during the first quarter of fiscal 2018. Let me be clear. I'm disappointed with the operating loss in Campbell Fresh this quarter, which reflects a number of costs that are onetime in nature, including higher carrot costs as well as increased expenses to further refine our new quality protocols.

We have plans underway to increase efficiencies as part of our overall effort to eliminate supply constraints and improve margins while delivering our new higher quality standards. As I've said before, we've learned some tough lessons in C-Fresh. Despite the executional challenges, we remain confident in the growth potential of the Packaged Fresh category and believe our C-Fresh strategy is sound. Throughout fiscal 2017, we took steps to build a stronger foundation for growth under our new C-Fresh leadership team.

Looking ahead, we plan for the business to grow profitably in fiscal 2018 as we return to more normal capacity and promotional activity across the beverage portfolio. We also have a robust innovation pipeline to help fuel additional growth, and we'll begin to introduce new beverage products to the market such as plant protein milk. We also plan to expand distribution of Garden Fresh Gourmet salsa and fresh soup.

Finally, our largest division, Americas Simple Meals and Beverages. Similar to other center-store categories, sales declined. Organic sales decreased 3% in the quarter driven by soup and V8 beverages. Operating earnings increased 4%.

Let me start with our shelf-stable beverage business. Sales declined in the quarter. As we've discussed previously, the entire shelf-stable beverage category has been hurt by ongoing consumer concerns about sugar and calories and by consumers shopping the store perimeter for fresh juices and other functional beverages. These trends continue to negatively impact our V8 portfolio, in particular, V8 V-Fusion and V8 Splash.

However, V8 100% Vegetable Juice and V8 +Energy continue to meet the demands of consumers seeking beverages that deliver health and well-being benefits. In the quarter, consumption of V8 Vegetable Juice increased behind our ongoing media investment focused on our core baby boomer consumers, and we expanded distribution of V8 +Energy.

Looking ahead, as discussed at our Investor Day, we have a clearer strategy to improve performance of the V8 brand with continued focus on V8 Vegetable Juice, the revitalization of V8 Blends with new benefits-focused messaging on the front of the label and steady growth of V8 +Energy. While our performance will improve, we do not expect this business to return to growth in fiscal 2018.

Now, let's turn to soup. As you know, this was a relatively small quarter for U.S. soup. While consumer takeaway was consistent with the year ago, soup sales declined 4%, all of which was related to lower retailer inventory levels. For the year, U.S. soup sales declined 1%. While sales of condensed soup and broth declined, I'm pleased with the growth of our ready-to-serve portfolio, including Chunky, Slow Kettle, and the meaningful contribution from the successful midyear launch of our new Well Yes! line.

We've modified our outlook for 2018 in U.S. soup since we spoke in July for sales, as we now expect additional headwinds. Let me explain. As I mentioned at the outset of my remarks, the retailer landscape is changing dramatically amidst intense competitive activity. Each year, we enter a set of complex negotiations with our key retail partners. Our goal is to drive growth, both for our customers and for Campbell.

Unfortunately, this year, we've been unable to reach an agreement with a large customer on a promotional program for soup. We expect this will negatively impact our U.S. soup sales with this customer, particularly in the first half. Accordingly, we now expect our soup sales to decline in fiscal 2018. We are taking a number of steps to mitigate the profit risk, and of course, we're continuing discussions with this customer to create a win-win solution. We believe our fiscal 2018 soup lineup and promotional programs are strong, and we're pleased that they've been well received in the balance of the marketplace.

For the upcoming soup season, we'll build on the continued launch of Well Yes! soup and introduce 5 new varieties. We have compelling brand partnerships with popular movie franchises to drive our kids' soups. We're rolling out innovation in Swanson broth. We have robust holiday plans across the portfolio. We're launching the new Chunky Maxx line with 40% more protein. And we have strong integrated marketing, including a new Chunky campaign that fully leverages our NFL sponsorship. We'll continue to work closely with all of our customers to maximize the sales opportunity during the upcoming soup season.

And now a quick update on the pending acquisition of Pacific Foods. You may have seen recent media reports regarding a lawsuit involving the estate of one of the cofounders and Pacific. Campbell is not named in the suit, and we're not going to comment on the litigation. We remain enthusiastic about Pacific. It will add another purpose-driven brand with a track record of growth to our portfolio. We're working to resolve outstanding issues so that we may complete this transaction in the coming months.

A highlight for fiscal 2017 was our successful multi-year cost savings initiative. As announced this year, we've increased our target by $150 million and now expect to deliver $450 million in savings by the end of fiscal 2020. We remain committed to managing costs aggressively and reinvesting a portion of the savings back into the business in fiscal 2018 to position the company for long-term growth.

As we outlined in July, we're focusing our investments on our 4 strategic imperatives, as we believe these areas will be future growth drivers of our business. First, as I mentioned earlier, we created a new e-commerce business unit to scale our capabilities across North America, including content creation, data analytics and forging new partnerships.

Expanding our e-commerce organization is critical to capture more than our fair share of the rapidly growing market for online grocery, which we expect to reach $66 billion annually by 2021. We're in a good position to do so with experienced digital and e-commerce leadership in place and a solid strategy to develop new capabilities.

Second, we're targeting increased investment in snacking as consumers continue to seek new and better-for-you snacking options. The snacking market is worth approximately $125 billion in the U.S. alone and growing around 3%. We plan to invest in people and resources to expand our business beyond cookies and baked snacks to other snacking and mini-meal categories.

Third, we'll continue to invest in our real food credentials in our core business, including adding more vegetables and whole grains, converting all our soups to chicken with no antibiotics while continuing to eliminate artificial colors and flavors from our products and completing the removal of BPA from the lining of our cans in the U.S. and Canada.

Finally, in the health and well-being space, we plan to invest across the company, focusing on food with attributes such as natural, organic, functional and fresh. Additionally, for the longer term, we'll continue to fund Habit, our personalized nutrition start-up. We're applying the learnings from our successful beta test in San Francisco as we expand the service nationally. We continue to expect multiple business models to emerge that ultimately will create value.

These 4 strategic imperatives represent significant growth potential for Campbell, as we continue to differentiate our company and our brands over time. The rapidly evolving marketplace requires new approaches and smart investment to engage with new and existing customers to make our brands more relevant to new generations of consumers while satisfying our loyal core consumers and to explore new models of innovation.

This longer-term view sometimes comes at the expense of shorter-term performance. We have our eye on the long-term targets as we continue to believe that they are attainable. However, to achieve them, we must further invest to diversify our portfolio toward the faster-growing consumer spaces of health and well-being and snacking, while increasing our participation in the growing e-commerce space. And we must do this while raising the bar on transparency and making our food more real and more sustainable.

Looking ahead to fiscal 2018, we expect sales growth in both Global Biscuits and Snacks and Campbell Fresh. However, we expect sales to decline in Americas Simple Meals and Beverages. As I outlined earlier, U.S. soup sales will be negatively impacted by lower promotional support with a large customer. Additionally, we do not expect our V8 beverage business to grow in fiscal 2018.

Given the difficult operating environment, the outlook for our Americas division and our plan to invest back in the business for the long-term, we expect net sales to change by minus 2% to 0%, adjusted EBIT to change by minus 1% to plus 1%, and adjusted EPS to change by 0% to plus 2%. This guidance excludes the pending acquisition of Pacific Foods. Anthony will walk you through additional details during his remarks.

In closing, across the industry, the pace of change and disruption continues to accelerate. We expect the operating environment to remain challenging in fiscal 2018. Campbell is prepared to address the short-term challenges we're facing and make the necessary investments to position the company for long-term growth. Our purpose, growth agenda and strategic imperatives provide the guide as we take the steps to be the leading health and well-being food company.

Thank you, and now I'll turn the call over to our Chief Financial Officer, Anthony DiSilvestro.

Anthony P. DiSilvestro - *Campbell Soup Company - CFO and SVP*

Thanks, Denise, and good morning. Before reviewing our results, I wanted to give you my perspective on the quarter. Importantly, as you saw in our press release this morning, we finished fiscal 2017 with performance consistent with our most recent guidance.

I'm very pleased with the progress we've made against our $450 million cost-saving target by 2020. We ended 2017 with program-to-date savings of $325 million. Cost savings, together with productivity gains, have contributed to another year of gross margin expansion. We are disappointed with the performance of the Campbell Fresh division. As we've said, we believe that we have the right strategy for this business, we are addressing the executional issues and we look forward to returning this business to top and bottom line growth in 2018.

We are providing guidance for 2018, which is below our long-term target. As I'll discuss, we have not been able to reach agreement on the promotional program with a key customer in our U.S. soup business and anticipate this to have a negative impact on sales. In terms of EBIT performance, while we expect to generate incremental cost savings and drive gross margin expansion, we are increasing our level of reinvestment in the business. I'll discuss the factors impacting the guidance in my remarks.

Now, I'll review our results in more detail. For the fourth quarter, as-reported net sales declined by 1% to $1,664,000,000. Organic sales also declined by 1%, reflecting declines in the Americas Simple Meals and Beverages segment. Adjusted EBIT increased 11% to $282 million, reflecting, on an adjusted basis, lower marketing and selling expenses and a higher gross margin percentage, partly offset by the sales decline. Adjusted EPS increased 13% or $0.06 to $0.52 per share.

For the full year, both as-reported and organic net sales declined by 1% compared to the prior year. Adjusted EBIT increased 2% compared to the prior year driven by a higher adjusted gross margin percentage and lower adjusted administrative expenses, which benefited from lower incentive compensation costs, partly offset by lower sales volume. And adjusted EPS, benefiting from share repurchases, increased 3% to $3.04.

Breaking down our sales performance for the quarter, organic net sales declined 1% driven by lower volume, primarily in the Americas Simple Meals and Beverages, reflecting the impact of lower retailer inventory levels on soup sales and declines in V8 beverages.

Overall, promotional spending rates were comparable to the prior year as increases in Americas Simple Meals and Beverages were offset by lower rates in Global Biscuits and Snacks and Campbell Fresh. Within Americas Simple Meals and Beverages, promotional spending rates were up in Canada to hold key promoted prices following our list price increase, and also in V8 beverages.

In Global Biscuits and Snacks, promotional rate reductions were primarily driven by lower levels of spending in Arnott's Biscuits. And in C-Fresh, promotional activity remains lower as we manage through our beverage supply constraints. And although it rounds to 0 on the chart, we did have a slightly positive impact from currency translation, principally the Australian dollar, bringing the change in our as-reported sales to minus 1%.

Our adjusted gross margin percentage increased 80 basis points in the quarter. First, cost inflation and other factors had a negative impact of 110 basis points. On a rate basis, cost inflation was about 1.5%. And in Campbell Fresh, we experienced higher carrot costs and costs related to beverage supply constraints and enhanced quality protocols. These negative drivers were partly offset by benefits from our cost savings initiative and mark-to-market gain on open commodity contracts.

Promotional spending, mix and pricing had little to no impact on the quarter. Lastly, our supply chain productivity program, which is incremental to our cost savings program, contributed 180 basis points of margin improvement. All in, our adjusted gross margin percentage expanded 80 basis points to 36.9%.

Adjusted marketing and selling expenses declined 12% in the quarter, primarily due to lower advertising and consumer promotion expenses as we lapped the prior year quarter in which marketing levels were significantly above historical level. We are also benefiting from our cost savings initiatives. Adjusted administrative expenses decreased 5%, reflecting the benefit from our cost savings initiatives.

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 increased $0.06 from $0.46 in the prior year quarter to $0.52 per share in the current quarter. On a currency-neutral basis, the improvement in adjusted EBIT had a $0.06 impact on EPS. Share repurchases reduced our share count, adding $0.01 of EPS benefit.

Our adjusted tax rate in the quarter increased by 80 basis points to 37.2%. The adjusted tax rate in the quarter reflects an unfavorable timing impact as well as the geographic mix of earnings. This was partly offset by lapping the negative impact of a $13 million correction for deferred tax expense in the prior year. The higher tax rate reduced adjusted EPS by $0.01. As expected, the adjusted tax rate for the full year was 32.4%.

And while adjusted interest expense was up $1 million as higher rates were mostly offset by lower average debt, this had no impact on EPS for the quarter. Currency translation also had no impact on EPS, completing the bridge to $0.52 per share.

Now turning to our segment results. In Americas Simple Meals and Beverages, organic sales declined 3%, driven primarily by declines in soup and V8 beverages. Sales of U.S. soup in this nonseasonal quarter declined 4%, reflecting declines in condensed, broth and ready-to-serve. The lower sales were driven by reductions in retailer inventory levels, while consumer takeaway in measured channels was comparable to a year ago. For the full year, sales of U.S. soup declined 1% as declines in condensed and broth were partly offset by growth of ready-to-serve soups.

Operating earnings increased 4% in the quarter to $198 million. The increase was primarily driven by lower advertising and consumer promotion expenses and lower administrative expenses, partly offset by lower sales volume and a lower gross margin percentage.

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 July 30th, 2017, the category as a whole declined 40 basis points. Our sales performance was better than the category, declining just 10 basis points. We had a 58.8% market share for the 52-week period, and as we outperformed the category, we gained 20 basis points of market share. Our share gains in ready-to-serve reflected improved performance with Chunky and the launch of Well Yes! and were mostly offset by lower share in broth, which was impacted by increased private-label activity. Private label grew share by 130 basis points, finishing at 14.1%. All other branded players collectively had a share of about 27%, declining 150 basis points.

In Global Biscuits and Snacks, organic sales were comparable to the prior year as gains in Pepperidge Farm, reflecting continued growth in Goldfish Crackers, were offset by declines in our Arnott's business in Indonesia. Operating earnings increased 35% to $109 million, reflecting a higher gross margin percentage, lower advertising and consumer promotion expenses and lower administrative expenses.

In the Campbell Fresh segment, organic sales increased 1% driven primarily by higher sales of Garden Fresh Gourmet and Bolthouse Farms' carrots and carrot ingredients. Sales of Bolthouse Farms refrigerated beverages declined slightly, reflecting the impact of supply constraints. Looking ahead, with increasing internal capacity and additional co-packer capacity now coming online, we expect to have sufficient capacity to support our growth plans in fiscal 2018.

Operating earnings decreased from $8 million to a loss of $8 million, reflecting higher administrative expenses, higher carrot costs and the cost impact of further improvements in our quality processes and related beverage capacity constraints. Operating earnings in the fourth quarter are below our year-to-date run rate, reflecting additional costs, primarily related to onetime inventory and asset write-offs.

While not to the record level generated last year, we had another strong year in cash flow performance. Cash from operations was $1,291,000,000 compared to $1,491,000,000 in 2016. The decline was due to wrapping last year's working capital reduction, lower cash earnings and lower receipt on hedging activities. Capital expenditures ended the year at $338 million, about equal to last year.

We paid dividends totaling $420 million compared to $390 million in 2016. The increase reflects our 12% increase in the quarterly dividend to $0.35 per share, earlier in this fiscal year. In aggregate, we repurchased $437 million of shares in fiscal 2017, $400 million of which were under our strategic share repurchase program. The balance of the repurchases were made to offset dilution from equity-based compensation.

Net debt of $3.2 billion was comparable to last year as cash from operations was offset by capital expenditures, dividends and share repurchases.

Now I'll review our 2018 outlook. We expect sales to change by minus 2% to 0%, adjusted EBIT to change by minus 1% to plus 1%, and adjusted EPS to change by 0% to plus 2%. This guidance assumes that the impact of currency translation will be nominal.

We are forecasting sales growth in both Global Biscuits and Snacks and Campbell Fresh. However, we expect sales in Americas Simple Meals and Beverages to decline. As Denise discussed, we expect U.S. soup sales to be negatively impacted by lower promotional support with a key customer. We currently estimate the impact to be about 1 percentage point on total company sales. And while we expect to make progress in turning around our V8 beverage business, we do not expect growth in 2018. While adjusted EBIT is benefiting from our cost savings program and productivity improvements, we are increasing the level of reinvestment in the business to drive long-term growth.

As we discussed at our Investor Day meeting, we are investing in e-commerce, snacking, real food and our health and well-being initiatives. We are also forecasting an increase in the rate of cost inflation and face an incentive compensation headwind representing 2 percentage points of EBIT. Adjusted EPS reflects the anticipated benefit from our strategic share repurchase program, partly offset by higher interest expense. And although we don't provide quarterly guidance, I will say that we expect significantly weaker performance in the first half and relatively better performance in the second half of this fiscal year.

Turning to some of the key assumptions underlying our guidance. As I've mentioned before, we have seen an increase in cost inflation. Looking ahead to 2018, we are forecasting cost inflation in the range of 2% to 3%, driven by ingredient and packaging increases on dairy, wheat, steel cans, resin and corrugated. Cost inflation also includes higher wages and medical benefit costs.

As we've successfully delivered in the past, we expect ongoing supply chain productivity gains, excluding the benefit of our cost savings program, of approximately 3% of cost of products sold. Against our cost savings program, we expect to deliver an additional $60 million to $70 million of cost savings, most of which will impact COPS. With productivity and cost savings ahead of inflation, we expect to deliver a modest improvement in our gross margin percentage.

Below the line, our adjusted interest expense is expected to increase to approximate $120 million to $130 million, reflecting the impact from our sale of intercompany notes to a third-party bank in the fourth quarter of fiscal 2017. We expect the effective tax rate to be approximately 32%, slightly below the 2017 rate of 32.4%. We expect to continue buying back shares under our strategic share repurchase program. However, given the pending Pacific Foods acquisition, we anticipate the level of repurchases will be below 2017 level.

Lastly, we are forecasting capital expenditures of approximately $400 million, which is an increase from 2017 spending, reflecting our recently announced initiative to build a forward-deployed warehousing and distribution system in the U.S.

That concludes my remarks, and I'll turn it back to Ken for the Q&A.

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

Thanks, Anthony. We will now start the Q&A session. (Operator Instructions) Okay, Candace.

QUESTIONS AND ANSWERS

Operator

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

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

Denise, I have a question, I guess, on the fiscal '18 outlook more broadly that pertains to Campbell but, obviously, some other food names, too, that have sort of similar fiscal years and have recently provided their own sort of '18 guidance. I guess the pattern that has emerged is still some expectation of sales growth that will be below what we all like to see given the tough environment that you've talked about, but still some earnings growth given the flow-through of cost saves and such. And I guess in Campbell's case, the company has made some very big bets around growthier assets within C-Fresh and snacking. And I guess I wonder if -- you've talked about reinvestment this year, but I guess for just consideration to maybe spending even much more upfront to realize the promise of these growth areas, even if it means, let's say, lower EPS for a year or 2 in order to revive the top line maybe more sustainably, even though I know that's not a super pleasant thought process. I guess my question's really around the concept of reinvestment versus a rebase from an EPS standpoint. Just so we don't run the risk of maybe repeating as a group this sort of scenario over time.

Denise M. Morrison - *Campbell Soup Company - CEO, President & Director*

Andrew, you raised a very good point, and it's always a very thoughtful process to balance the performance in the short term with significant long-term investments. In this environment and for the last several years, we have been acting very decisively and aggressively. When you think about it, we bought 5 companies in the last 5 years, if you include the pending acquisition of Pacific. We divested lower performing businesses. We have closed several manufacturing facilities and consolidated assets and giving -- give -- invested to give us much more flexibility and cost savings in our supply chain. We realized our cost savings program, overdelivering the $300 million a year early and setting a goal for another $150 million, which we have a line of sight to. And we really amped up new models of innovation, going into places that we haven't gone before. So we haven't been sitting still for a moment. And this continued stream of investment is on top of all of that activity. And we believe that the investments that we're making really are sufficient support in 2018 to get these ideas jump-started and/or continue to invest where we have already been activating. And so I am comfortable with the fact that it's the right level of investment, and we're still able to show some EPS and EBIT growth in the process.

Operator

And our next question comes from Matthew Grainger of Morgan Stanley.

Matthew Cameron Grainger - *Morgan Stanley, Research Division - Executive Director*

I just -- I know this is probably a difficult one to elaborate on, but I wanted to come back to the negotiation issue that you highlighted in the soup category. Given the importance of soup to your overall profitability and supply chain, I'm just curious if you can give us any more context on why you felt it was necessary to exercise this level of discipline and really sort of stand on principle here. Is that a function of that particular retailer making unrealistic demands? And how do you think about the risks of that translating into other categories or, potentially, a loss of shelf space or display that's hard to rectify going forward?

Denise M. Morrison - *Campbell Soup Company - CEO, President & Director*

Yes, we don't necessarily comment on the specifics with a customer, but let me answer the question more in aggregate. Our negotiations with customers for soup season involve joint business planning with plans for spending and merchandising linked to a sales goal. And what we seek are win-win-win solutions, win for the consumer, win for the customer and win for Campbell. And so in this particular situation, we were not able to achieve that negotiation. And so what I can tell you though is our programs are strong, our A&C investment is robust and our new products are really unique with the Well Yes! and Chunky Maxx. And they've been really well-received by customers in general in the marketplace. And we'll continue to keep the dialogue open and strive for that win-win-win solution.

Matthew Cameron Grainger - *Morgan Stanley, Research Division - Executive Director*

Okay, understood. And I'm not sure if these factors are related, just a quick follow-up. But does the trade inventory reduction that occurred in Q4 have anything to do with the sort of the lead-in to the fall and changes with that same customer? Or is that something a bit broader across the retailer environment?

Anthony P. DiSilvestro - *Campbell Soup Company - CFO and SVP*

Yes, I would say they're unrelated, Matt.

Operator

And our next question comes from David Driscoll of Citi.

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

I wanted to just go back a little bit. So the Analyst Day, I walked away from Analyst Day really thinking that you were quite optimistic about the situation, that it was changing, Denise, in a positive way. So the negative 2% to 0% revenue guidance, comping negative 1% from the year, it's pretty disappointing. But it doesn't even seem like it's all related to this. Anthony, I think you said the impact from this soup issue is negative 1 percentage point. But so can you just comment on the fullness of this guidance? Is there something else here? Because negative 2% to 0%, it just -- it doesn't seem to flip to some of the stuff that I thought you were saying at Analyst Day about the turnaround in C-Fresh and these opportunities in biscuits. I just feel like we were getting a bit more negative of a figure today, and maybe it's not only related to the soup issue, but would just love for you to elaborate if you can.

Anthony P. DiSilvestro - *Campbell Soup Company - CFO and SVP*

Yes, so if I think about it and its components, we -- and as Denise said, we do expect to see top line growth in Campbell Fresh in 2018 as we get the capacity for beverage back up to where we need to be. We turned on the promotional program. That's kind of happening now as we speak, so we do expect growth there. We do expect growth in Global Biscuits and Snacks. The Pepperidge Farm business, driven by Goldfish, has performed well, so we expect that to continue. Fresh Bakery is a little bit of a drag on that portfolio. Frozen is a little bit of a drag on that portfolio. Arnott's, we expect a little bit of growth. And we expect to turn around or stabilize our business in Indonesia. So I would say in Global Biscuits and Snacks, a little bit of growth. As you pointed out, on Americas Simple Meals and Beverages, 2 negative drivers. One is now the issue on U.S. soup and the other is the expected decline, although hopefully to a lesser degree, on our V8 beverage businesses. So that gets you into negative territory in aggregate. I think the range reflects some expectation and some realization of the environment in which we're operating, and that's how we came to a decision to go down to that minus 2% as for the lower end of the range, so.

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

One follow-up on the specific issue, just to be clear, it's a promotion problem that you're having for the soup season. It sounds then that -- is this a true statement? You've not been delisted, you've not lost shelf space, you're just not getting the promotions that you would have otherwise expected to get during the soup season. Is that fair?

Anthony P. DiSilvestro - *Campbell Soup Company - CFO and SVP*

That is fair. So it will show up on the financials. It will look like a reduction in trade and a lower trade rate. That will flow through to lower volumes, which we think will more than offset the trade reductions. So therefore, lower sales. It will have some negative impact on EBIT, and we're looking for ways to mitigate the bottom line impact through incremental cost savings and a redeployment of some of that trade elsewhere.

Operator

And our next question comes from Ken Goldman of JPMorgan.

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

If I can just ask a quick one on soup and then a more general follow-up on soup. Just on the timing -- thank you for the help in terms of -- you mentioned first half. I'm just curious has it started to affect your business, I'm just talking to the loss of the promotion, in the first quarter or is it more of a second quarter issue? Why doesn't it affect the third quarter as much? I'm just trying to get a little bit of sense of timing as we sort of model this out. I'll leave it there and then I'll go to the follow-up if I can.

Anthony P. DiSilvestro - *Campbell Soup Company - CFO and SVP*

Yes. I mean, there's 2 things, one is the seasonality of soups. So it is going to impact both the first quarter and then the second quarter. And the reason that you don't see it -- is less so in the back half, is how the in-season and out-of-season pricing works on soup. So the big delta that you'll see on shelf prices is really a first half in-season issue and not so much when we get out-of-season in the back half.

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

Okay. But exclusive of seasonality, we should start modeling this fairly immediately in 1Q? Is that the message we should take away or is it unclear exactly when this sort of happens?

Anthony P. DiSilvestro - *Campbell Soup Company - CFO and SVP*

No, I would agree with that.

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

Yes. Okay. And then just my follow-up is, we heard some of your peers talk about the more challenging negotiating environment with customers in general. One individual said, "It's not like it was 20 years ago where you just send a fax out and announce a price increase. It's a lot harder than it used to be." I think that's apparent. But I'm just questioning, or curious rather, for this particular issue with the lost promo, do you look at it as a real one-off, I guess, challenge to you? Or is this indicative of a more difficult environment out there, something that you may have to deal with a little bit longer and more broadly in the future?

Denise M. Morrison - *Campbell Soup Company - CEO, President & Director*

Yes, I think that the -- again, as I said, I think the retailer environment right now is hypercompetitive. I mean, you've got the Amazon acquisition of Whole Foods, the expansion of Lidl and Aldi creating some new retail formats and some escalated competition in the marketplace. However, I'm optimistic that retail continues to morph. I mean, I remember, and I'm going way back, when club stores and supercenters were a new format, and the retailer market and companies like ours adjust to that. So we're really focused on making our brands accessible in multiple channels. And we believe that the new sales design that we have will help us in that effort. So yes, I do think these are challenging times, and I do think that as the consumer changes, retailers will change with the consumer, and we've got to do the same.

Operator

And the next question comes from Bryan Spillane of Bank of America.

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

Question on snack investments, I think you had mentioned that it was one of the themes in the Investor Day in July, and you referenced it again today on the call. So Denise, can you just sort of give us a little bit more color in terms of the type of investments? Would it be reconsidering maybe more M&A in the snacking world? Is it packaging formats, launching new products? Just trying to get a sense for, I guess, what we should look for in terms of being able to identify where you've sort of expanded in snacking and what those types of investments would be.

Denise M. Morrison - *Campbell Soup Company - CEO, President & Director*

Right, so in the snacking area, I'll take it in 3 parts. The first is our internal innovation, and we have real insights about the frequency of consumer snacking and mini-meal consumption, now 5 times a day as opposed to only about 1/3 of the population eating 3 square meals. So we think that's a very rich space for us to expand with our brands internally. So we have a concerted effort across the enterprise to really look at a series of platforms that we've identified and bring health and well-being more into the front and center on snacking, and starting with mindful kids snacking, which we think is a good base for us. So the investment is really in the people and resources to amp up that internal innovation. The second part of it is partnerships, and we're continuing to look at partnerships like Chef'd, for example, where we can actually incorporate our brands into new models and accessible channels. And then the third would be smart M&A, and we continue to be very disciplined about the M&A that we do, and this will be no different. But this is an area where we have an interest, particularly in the better-for-you snacking arena. So it's really a three-pronged approach, but we do believe that's a very robust space for us as a company across the enterprise.

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

If I remember it correctly, you've set revenue targets over, I guess, maybe the medium term for each segment to sort of gain incremental revenue from snacking. Is -- do you expect that in this fiscal '18, that there will be some incremental revenue in '18 from these initiatives?

Denise M. Morrison - *Campbell Soup Company - CEO, President & Director*

Yes, I think that's built into the growth expectations for the Global Biscuits and Snacks division, and some of the innovation that we will be developing will also be hitting the marketplace in future years.

Operator

And our next question comes from Jonathan Feeney of Consumer Edge Research.

Jonathan Patrick Feeney - *Consumer Edge Research, LLC - Senior Analyst*

You had a little break there, so let me get back to the -- just one more follow-up, please, on the major customer soup decision here. Is this just a simple -- you said you didn't lose shelf space. Is this just as simple as a competitive issue that maybe surprised you a little bit where someone else is selling in promotional aggressively, and that's maybe a little bit surprising given some of the recent plant moves that have been made? Is there any truth to that statement?

Denise M. Morrison - *Campbell Soup Company - CEO, President & Director*

I'm comfortable that we've given you the information that we're willing to disclose. So beyond that, I don't believe we should be talking about the details.

Jonathan Patrick Feeney - *Consumer Edge Research, LLC - Senior Analyst*

Okay, let me take it this way then. Your other 9 of your top 10 customers where this didn't happen, what are the factors when you think about this soup season that -- like, what data do you provide them? What are the factors that you're very excited about, that allow you to maybe keep the kind of promotions you've been -- you've had there? I mean is it -- why would -- what data do you share with them that make those negotiations go well?

Denise M. Morrison - *Campbell Soup Company - CEO, President & Director*

Yes, we have a very disciplined robust process with our customers in joint business planning, which starts with discovery of opportunities, development of ideas, decisions made, and then delivery and execution. And so we have been working on these joint business plans for many years with many customers. They really involve things like pricing, merchandising, shelf, performance, consumer activation, customization, packaging, product assortment. They're very, very comprehensive strategic plans that we codevelop with our customers. We have very strong programs this year and very robust plans with customers. So I'm optimistic with this other 1 situation that we will get to a win-win solution.

Operator

And our next question comes from Jason English of Goldman Sachs.

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

I'm going to follow-up on Feeney's question because I feel the need. The issue with the soup promotion, maybe you're willing to disclose whether or not it was a retailer choosing to opt into other categories, so no longer showing the same degree of support behind soup. Is that the issue here? Or is it, kind of in Feeney's question, no, no, it's just a different brand within soup that they're going to promote this year?

Denise M. Morrison - *Campbell Soup Company - CEO, President & Director*

We're not experiencing this in other categories.

Anthony P. DiSilvestro - *Campbell Soup Company - CFO and SVP*

Yes, I guess it's really hard for us to tell you what the retailer's promotional program is going to be in the category. We know what it is vis-à-vis our product, but it's hard for us to sit here and say we know what they're going to do with respect to the other brands within this category. I will add that this situation with this retailer is unique to this soup category, not to the other categories in which we participate even with this retailer. So it is confined to soup, and, again, it's really hard for us to say what that retailer is going to do.

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

Okay, so the jury's still out on whether or not they're just pulling back on the category in aggregate. Wait and see there. Let me ask a different question and kind of taking the other side of Andrew Lazar's question on do you need to spend more and ask the question of, are you spending way too much on this portfolio? You're talking about upping capital investment for services that, arguably, there's ample third-party capacity out there. But you're going to burn a lot of cash to replicate that. And you continue -- I mean, you've pulled back a lot on A&P, but the spend level isn't necessarily anemic in context with the industry. Denise, given the seismic shifts and the acceleration of these shifts, all the things that you're talking about, why aren't you making more seismic shifts? Why aren't you pulling back, shoring up more cash to really accelerate this portfolio pivot and transformation outside of just sort of these smaller bolt-on incremental moves that you've been pursuing for the last few years?

Denise M. Morrison - *Campbell Soup Company - CEO, President & Director*

We believe that we have the right balance of strengthening our core business and, at the same time, expanding into faster-growing spaces. So again, we believe that we are spending adequately and aggressively in our Global Biscuits and Snacks and our Campbell Fresh business to build those very on-trend categories. Just a reminder though, the soup business is still a very large and profitable business for us. And we have to keep our brands differentiated and relevant. And so we've been really investing very specifically in the real food credentials of our core business to better satisfy consumers and customers, and innovation to keep the center store robust, which is definitely needed in today's environment. That said, we have had really good margin expansion in the category, and we're operating as a company very profitably. So I do think that if there are M&A opportunities out there that we can bolt-on or supplement what we're doing, we are open to that. But we're, again, very disciplined about our approach to that.

Operator

And our final question comes from the line of David Palmer of RBC Capital Markets.

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

Just a quick one on -- you mentioned, in the opening remarks, retailer brands as part of the description of the challenges facing food producers out there. In the past, you talked about retailer brand push in broth. Could you just talk about retailer brands and the threat or the market share shifts that are going on there vis-à-vis broth, and particularly as it relates to your fiscal '18 outlook?

Denise M. Morrison - *Campbell Soup Company - CEO, President & Director*

Yes, private label has definitely been around for a long time and has traditionally been below average share in our categories. And acknowledging the fact that we did feel the impact on Swanson broth this year. We believe in the world of private label that the best insulation is brand differentiation, and that's where we're focused. And so the other -- the flip side of it is in the Fresh business, we do participate with store brands in some of our fresh categories. So it's not a one-size-fits-all on how to work in an environment with private label.

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

So do you feel like you've -- with broth, in particular, you've stabilized things versus private label and you have the right programs to make sure that those share trends are at least not going to get worse?

Denise M. Morrison - *Campbell Soup Company - CEO, President & Director*

Yes. We have specific plans to differentiate broth this year.

Operator

And that concludes our question-and-answer session for today. I'd like to turn the conference back over to Ken Gosnell for any closing remarks.

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

Thank you. Thanks, everyone, for joining our fourth quarter earnings call and webcast. A full replay will be available about 2 hours after the call concludes by going online or calling 1 (404) 537-3406. The access code is 6692641. You have until September 14 at midnight, at which point we move our earnings call strictly to the website. Just click on Recent Webcasts & Presentations. If you have any further questions, please call me at (856) 342-6081. If you are a reporter with questions, please call Carla Burigatto, Director of External Communications at (856) 342-3737. 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 great day.
