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CPB - Campbell Soup Co to Acquire Snyder's-Lance, Inc. to Expand in Faster-Growing Snacking Category M&A Call

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OVERVIEW:

CPB announced that it has agreed to acquire Snyder's-Lance for $50 per share in all-cash deal, which equates to an enterprise value of $6.1b.

CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Campbell Soup Company to acquire Snyder's-Lance conference call. (Operator Instructions)

I'd now like to turn the conference over to Ken Gosnell, Vice President, Finance, Strategy and Investor Relations.

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

Thank you, Candace. Good morning, everyone. Welcome to our call to announce that Campbell will acquire Snyder's-Lance. With me here in New Jersey are Denise Morrison, President and CEO of Campbell Soup Company; and Anthony DiSilvestro, CFO, Campbell Soup Company. Also joining us by phone is Brian Driscoll, President and CEO of Snyder's-Lance. Brian will be making a few comments but will not be joining us for the Q&A portion of the call.

As usual, we've created slides to accompany our presentation. You will find the slides posted on our website this morning at investor.campbellsoupcompany.com.

During today's call, we may make reference to certain non-GAAP measures. Reconciliations of these measures to the most directly comparable GAAP measure are included in our Q4 fiscal 2017 and our Q1 fiscal 2018 earnings presentations, which can be found at investor.campbellsoupcompany.com. The call is open to the media who participate in a listen-only mode.

Today, we will make forward-looking statements, which reflect our current expectations. These statements rely on assumptions and estimates, which could be inaccurate and are subject to 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 the forward-looking statements.

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

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

Thank you, Ken. Good morning, everyone, and thank you for joining us today. I'm pleased to announce that Campbell has agreed to acquire Snyder's-Lance. This is a transformational acquisition that will significantly expand our snacking business and shift Campbell's center of gravity toward faster-growing spaces. The combination of Campbell's iconic brands at Pepperidge Farm, Arnott's and Kelsen with Snyder's-Lance complementary portfolio will create a diversified snacking leader and provide consumers with an even greater variety of better-for-you snacks. We're excited about this transaction and confident that it will create significant shareholder value.

Campbell is a purpose-driven company. As many of you have heard me say before, we use our purpose, real food that matters for life's moments, as a filter for decision-making. It informs everything we do, including serving as a guide for our disciplined approach to M&A. The combination of Campbell with Snyder's-Lance will accelerate Campbell's strategy.

First, it will optimize our core business, enhance our real food credentials and strengthen our position in the macro snacking market. Snyder's-Lance portfolio includes real food snacks that complement our own real food philosophy and capabilities while also leveraging the macro snacking trends we've discussed with you in the past.

Second, as I've said before, health and well-being means different things to different people. The addition of Snyder's-Lance to Campbell will increase our ability to provide consumers with a wider variety of better-for-you snacks, including ones that are organic, gluten-free, non-GMO and provide other functional benefits.

And third, the acquisition will help us accelerate our efforts to expand into faster-growing distribution channels. The addition of Snyder's-Lance will increase our exposure to convenience and natural channels while also providing products that lend themselves to e-commerce. This is complementary to Campbell's existing strength in grocery and mass channels.

Anthony will provide an in-depth review of the transaction details, but let me offer you some highlights. As you can see on Slide 6, we've agreed to acquire Snyder's-Lance for $50 per share in an all-cash deal. Snyder's-Lance has a history of strong sales growth. They reported net sales of $2.2 billion and adjusted EBIT of $193 million for the trailing 12 months ended September 30, 2017. Headquartered in Charlotte, North Carolina, the company has approximately 6,000 employees and operates 13 manufacturing sites. The combined pro forma annual net sales is expected to exceed $10 billion. We're confident that the combination of these snacking portfolios will create significant value for shareholders through continued margin improvement, driven by ongoing cost savings and cost synergies. The agreement is subject to Snyder's-Lance shareholders' approval and customary regulatory approvals. We anticipate the deal to be completed by early second quarter of calendar year 2018.

Those who follow Campbell have heard me talk about our plans to shift our center of gravity by diversifying our portfolio. Since 2011, we've made solid progress against this goal. With the addition of Snyder's-Lance to Campbell, we will dramatically shift our portfolio toward the faster-growing snacking category. As a result of this acquisition, our new snacks portfolio will represent nearly half of Campbell's annual net sales while soup will become about 1/4 of our annual net sales. This is a truly remarkable transformation for Campbell, and I'm confident that it will lead to an improved growth profile.

This deal is compelling for many reasons. First and foremost, it strengthens Campbell's core business and provides us with new capabilities. It accelerates our expansion into the faster-growing better-for-you snacking market and nearly doubles the size of our global baked snacks business.

Second, snacking is a business we know very well. And I'm confident in our ability to execute in this space. Snyder's-Lance will become a part of our Global Biscuits and Snacks business led by Luca Mignini. As some of you know, in the first quarter of fiscal 2018, Campbell's Global Biscuits and Snacks division delivered sales growth of 3% and segment operating earnings growth of 4%. In particular, the acquisition will complement Pepperidge Farm's operations in the U.S., which has consistently been one of our best-performing businesses.

Third, as I mentioned earlier, the transaction will diversify our portfolio and move us decisively into the faster-growing snacking category while enhancing our distribution capabilities.

And finally, we expect there will be significant cost synergies, which Anthony will expand upon momentarily.

As I've discussed with many of you on previous calls, snacking is a highly attractive consumer space with growth rates that outpace many center-store categories. In fact, the macro snacking trend is quite literally becoming the way we eat today. The lines between snacks and meals are blurring. Snacking occasions are expanding rapidly and even extending in traditional meals. 90% of consumers snack multiple times per day. In the U.S., more than 50% of all eating occasions are snacks, and nearly half of U.S. consumers replace meals with snacks at least 3 to 4 times per week. It's no wonder that snacking is an $89 billion market in the U.S., with a 3-year compound annual growth rate of approximately 3%.

As many of you know, Campbell has a strong snacking business today, which includes iconic brands such as Goldfish, Milano, Tim Tam, Shapes and Kjeldsens. These brands are loved and enjoyed by consumers around the world. Through the acquisition of Snyder's-Lance, we will add more leading brands to our portfolio, including ones that provide consumers with better-for-you snacking options.

As you can see here, Snyder's-Lance has a powerful stable of brands, which hold leading positions in the categories in which they compete. We believe Campbell's capabilities in consumer insights, research and development and marketing will help drive sales growth of the Snyder's-Lance brands. The combination of Campbell snacking brands with Snyder's-Lance offers an exceptional opportunity to build a snacking platform. It will create a unique snack leader, with a diversified portfolio of brands across attractive categories. We'll be able to provide consumers with a wide range of snacks, literally from soup to nuts. I've been dying to say that.

In all seriousness, we'll have an unrivaled portfolio of snacking options that include sweet, savory, fresh and convenient mini meal offerings. From sweet snacks such as cookies and biscuits, savory snacks like crackers, chips, pretzels and nuts, to fresh snacks, including salsa, hummus and carrots, and even convenient mini meals with soup and other simple meals. This portfolio truly offers real food that matters for all life's moments.

In closing, we're excited about this opportunity. We believe in our ability to execute, and we're confident that the transaction will create value for our shareholders and other stakeholders. I'm pleased that Brian Driscoll, the CEO of Snyder's-Lance, has joined us today to share his perspective on the acquisition. I've had pleasure of knowing Brian for many years. He is a well-respected leader in the food industry.

Following Brian's brief remarks, Campbell's Chief Financial Officer, Anthony DiSilvestro, will discuss the financial impact for Campbell and additional details about the transaction and synergies. Brian, over to you.

Brian J. Driscoll - *Snyder's-Lance, Inc. - CEO, President & Director*

Thank you, Denise, and good morning, everyone. I'm excited to be here today to talk about this transaction. This past summer, we received an approach from Campbell. Following that, our Board of Directors and senior management team conducted a thorough review process of strategic options, with the assistance of our outside financial and legal advisers. We believe this transaction maximizes value for our shareholders. In addition, we are pleased that it delivers an immediate and significant cash premium. Our board and I are confident this transaction is the best way to unlock the value of our portfolio. Clearly, Campbell recognizes the progress we have made planning and executing our transformation.

We are pleased to note that they intend to continue that work, following the close of the transaction, which builds on all the hard work and effort of the Snyder's-Lance team. I'd like to acknowledge and thank all of our employees for their important contributions, which have positioned Snyder's-Lance for this historic milestone. We look forward to working closely with Campbell in planning a seamless integration. As we've gotten to know each other, we recognize how similar our cultures are, with a shared focus on high-quality products and ingredients and driven by family-founded brands.

With that, I'd like to turn the call back over -- I'm sorry, turn the call over to Anthony DiSilvestro.

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

Thanks, Brian, and good morning, everyone. I'll start my comments with an overview of the transaction, which we are confident will create significant shareholder value. We have an agreement to acquire Snyder's-Lance for $50 per share, which equates to an enterprise value of $6.1 billion. The enterprise value is 19.9x our estimated adjusted EBITDA of Snyder's-Lance for calendar year 2017 of $305 million. When you factor in the expected cost synergies, the adjusted EBITDA multiple is 12.8x. The purchase price per share represents a 27% premium to the Snyder's-Lance closing price on December 13, 2017, the day before media reports on the transaction.

Before proceeding, I wanted to comment on the outlook for Campbell. Other than the change related to the Pacific Foods acquisition as disclosed last week, there is no change to Campbell's 2018 sales and earnings guidance.

As I mentioned, we expect this transaction to create significant value. As many of you are aware, Snyder's-Lance has recently launched a cost transformation program, targeting $175 million in savings, some of which is expected to be achieved in calendar year 2017. We have reviewed this program in detail and expect that a majority, approximately $125 million, of the targeted cost savings will be achieved.

In addition, we have identified a cost synergy opportunity of $170 million in run rate savings, which will be achieved by our fiscal year 2022. Including a preliminary estimate of the incremental, depreciation and amortization related to purchase accounting, we expect the transaction to be 5% to 7% accretive in our fiscal 2019. This assumes that the incremental debt carries an average interest rate of 3.5%. As we expand margins through synergies and achieve cost savings, the level of EPS accretion increases to 15% to 20% by fiscal 2021.

Supporting our agreement to acquire the outstanding shares of Snyder's-Lance, we have a committed bridge financing in place. Prior to the closing, we expect to issue $6.2 billion of new debt through a combination of term loans and long-term notes. The vast majority of incremental financing will be fixed rate. And based on current market levels, we forecast the weighted average interest rates on the aggregate financing to be approximately 3.5%.

We will leverage our strong cash flow and balance sheet to finance the transaction with debt. With the transaction, Campbell's pro forma leverage, measured as net debt to adjusted EBITDA and including the recently closed acquisition of Pacific Foods, increases to 4.8x. We are committed to deleveraging and are targeting a reduction in our leverage ratio to 3x by fiscal 2022. To assist the deleveraging, we are suspending our share repurchase program going forward.

Consistent with our past practice, we will maintain our current dividend policy in which we target a payout ratio competitive with the peer group and expect to increase the dividend over time with earnings. Based on these plans, we expect to maintain an investment grade rating. In fact, both Moody's and S&P have issued press releases this morning, with S&P assigning a rating of BBB and Moody's indicating a rating of no less than BAA2.

Completion of the transaction is subject to approval by the Snyder's-Lance shareholders and customary regulatory approvals. We expect to close the transaction by early in the second quarter, the calendar quarter of 2018. The combination of Campbell and Snyder's-Lance will yield significant cost synergies, benefiting from the overlap in our snacking businesses. As I mentioned, we expect to achieve $170 million in cost synergies, which equates to about 7.5% of Snyder's-Lance sales. These synergies come from several areas, both our Pepperidge Farm business and Snyder's-Lance operate warehouses and depots to distribute products, and there is opportunity to improve the overall efficiency of the combined company.

We have also identified opportunities in manufacturing to optimize the network. Also, we anticipate the ability to achieve procurement savings in both ingredients and packaging.

In the areas of sales and marketing and administration, we'll optimize the scale of the combined entity and leverage the shared services opportunity. While we're not counting it as a synergy, we believe there are revenue opportunity created by the combination of the 2 companies. We have complementary distribution with their strength in immediate consumption and a natural channel, and our strength in grocery and mass. There are unique capabilities in sales and marketing and innovation, which can also be leveraged. There are opportunities to extend certain brands into kids snacking, and the combined entity can accelerate the capture of the e-commerce opportunity.

Summarizing, we have a detailed cost synergy plan and we are confident in our ability to achieve the $170 million target. To achieve this synergy, complete the transaction and integrate the business, we estimate onetime cost of $275 million to $325 million.

I'll wrap up with this chart. We are very excited about this transaction and are confident in our ability to execute. The acquisition of Snyder's-Lance is aligned with our strategy for Campbell and will significantly advance our execution. The addition of Snyder's-Lance will meaningfully shift our portfolio to higher growth snacking category. As we discussed, the combination of Campbell and Snyder's-Lance will yield significant cost synergies as well as potential revenue opportunities. And lastly, we see this transaction creating significant value for our shareholders.

With that, I'll turn it back to Ken for Q&A.

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

Thanks, Anthony. As I mentioned earlier, Denise and Anthony are here with me in New Jersey, and we'll handle the Q&A session. (Operator Instructions) Okay, Candace.

QUESTIONS AND ANSWERS

Operator

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

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

All right, I'm choosing one. Let me go with, I guess -- I guess my question has to do with the pretzel franchise. It certainly stood the test of time very well at Lance, but I guess, perhaps more recently maybe has not grown as quickly as it has previously and relative to other snacking options. And I guess, given that's still the biggest part of the Lance portfolio, how do you ensure this business can stay relevant and drive growth in addition to the other pieces of Lance, which have been growing more quickly?

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

Yes, we believe that the consumer snacking trends are really strong, and that the Snyder's brand and also the Snack Factory Pretzel Crisps brand are very strong entries into this particular segment of the category. We look forward to learning more about these brands and helping them to realize their potential. And our intention is to nurture that.

Operator

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

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

I guess, I wanted to ask a question about the just the ability to like combine distribution or leverage each entity's distribution. And forgive me, I don't know enough about Lance's distribution itself. But given that Campbell has some direct store distribution with its snack portfolio, are there any limitations, I guess, or any accommodations that you'll have to make in order to try to cross-sell the products? Just trying to understand how quickly you can get to a point where you're actually able to take advantage of the cross-selling and the channel opportunities.

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

Yes. Well, today, we're operating 2 direct store delivery systems with -- in Pepperidge Farm with snacks and also with bakery. This will add a third DSD system. The commonality are all of these systems have independent business owners or independent distributor operators. So we're very familiar with how to reach the potential of these systems. I think as we get to know the companies, we will be looking at potential synergies. We believe those exist mostly in the area of depots and warehousing.

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

Okay. And so the model doesn't accommodate or contemplate any like sort of buying of routes or trying to combine some of these routes?

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

No, we haven't assumed any of that. We operate 2 systems today for Pepperidge, one for snacks and one for bakery. And this DSD now would be a third one. And as Denise mentioned, where we see significant savings opportunity is in warehouse and depot system that distributes products to those independent operators. And the way Snyder's-Lance operates today, they're about half DSD and the other half direct to warehouse, but we plan to operate their DSD system independently.

Operator

And our next question comes from Chris Growe, Stifel.

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

Congratulations on this announcement here. Just a quick question for you, if I could. Looking out with the expectation you'll achieve these synergies by fiscal '22, call it roughly 5 years, so like 4 or 5 years away, what is taking so long along the way to achieve all the efficiencies? Is it just to integrate or effect the plan that Lance had in place? Or is it going to take a little longer to achieve savings in the area of efficient -- in the depots and warehouses and that kind of thing with the DSD system?

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

Yes, so we get a little hung up in the transition between calendar year and fiscal year, so they are a little earlier than they may appear. And we think we'll realize synergy right out of the gate, but the majority will be a little bit back-end loaded. And the reason for that is we need to implement our ERP system to unlock the combination and the leverage between the 2 companies. And that's the reason it's a little bit later, a little bit longer.

Operator

And our next question comes from Ken Goldman of JPMorgan.

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

So I have a question on DSD. The world is shifting to e-comm, right? Obviously, a little more slowly in food, but 10, 20 years from now, we'll have a lot more sales in e-comm than we do now. DSD, obviously, doesn't help with that. One of your major competitors in cookies and crackers has shifted away from DSD. And I realize you have a very different system of DSD with your independent operators. But running 3 DSD systems at a time when the world, especially in sort of snacking, seems to be going away from that, I know one of your DSD is in bread, but it seems to be sort of the opposite trend of where things are heading. So I just wanted to know if you can comment on that. If there are any plans over time to sort of restrict the use of DSD or if it's really just so ingrained, no pun intended, in what Campbell does, that it's -- you're just going to have to run these 3 separate businesses as is. It's very expensive.

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

Sure. I think it's accurate to say that most of the sales in grocery and food still exist in the store base, and that e-comm today is low single-digits. And the expectation is that e-commerce will grow, and we'll -- we're expecting that to be about $66 billion by 2020 for the industry. That said, there's a huge omni-channel play as well. I mean, when you think about what conventional customers have done with things like click and collect, order online, pick up at store, and also what pure-play e-tailers have done, including the purchase of regular stores. We still think there's definitely a role for the store in food. And in the snacking business, it's not just about grocery and mass, there are multiple channel formats that carry snacks where impulse purchasing in store is a huge part of the business. So we still see a very vibrant role for DSD, and then I think one of the things that makes the DSD systems different for both of these companies is the entrepreneurial spirit is alive and well in the independent operator. And they've done an exceptionally good job for us and for Snyder's-Lance.

Operator

And our next question comes from Robert Moskow of Credit Suisse.

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

Snyder's-Lance was in a midst of a complicated integration with Diamond. And even within Snyder's-Lance, there's probably different cultures at play from past acquisitions. And now there's another acquisition on top of it and another ERP overlay. So can you talk a little bit about how you plan to manage through those integrations? There's one integration, I think you said, is still going on and then there's another integration on top of it. Is that how you think about it?

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

We've had a lot of experience since 2011 with acquiring businesses that have different cultures and different ways of operating. I think one of the things that we have found with the acquisitions that we've made, and this one is no different, is that we all share the same basic values and we all are passionate about the purpose. It might be expressed in different words, but they're basically pretty aligned. And so we'll be looking as we work with the Snyder's-Lance team on integration and culture. We'll be looking for those things that represent points of parity, and we'll deal with the things that are points of difference.

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

Yes, I would just add to that, so we intend to establish an integration team for this. It will be dedicated. It will be cross-functional. It'll be around for a while. It'll include members of our Global Biscuits and Snacks division, people from our corporate operation, people from Snyder's-Lance. We have set aside significant resource to do that. And this planning has already begun and will continue, obviously, for a while. There isn't an integration going on right now between Snyder's and Diamond. That's mostly complete. What I was referencing before is they have a cost transformation plan that they announced that we've reviewed in significant detail and agreed that we'll be able to achieve a majority of those targeted savings.

Operator

And our next question comes from David Driscoll of Citi Research.

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

I wanted to ask you about just the magnitude of these synergies. So I think just quick math, it's north of 13% of Lance's revenues, and I just wanted to get your sense here. I mean, this is a really big synergy number, expressed as a fraction of the revenues, more so than what we've seen typically. And then given the very extensive nature of Snyder's-Lance's changes, their cost optimization and portfolio, I'm concerned that this is a lot of wood for you guys to chop, and that there's a lot of risks here in actually achieving these synergies. And I'd just appreciate if you could respond to that comment, and maybe just give me some understanding as to your thought process on the risks of achieving the very significant synergies outlined today.

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

Yes, I could take a crack at that. And as I step back and look at this, we are very confident that we can deliver both the Snyder's cost transformation plan and these synergies, and we've been very careful and deliberate to separate the 2. They announced their plan to achieve $175 million of cost savings. The elements of that plan are very similar to the cost savings program that we embarked upon in 2016. It includes zero-based budgeting. It includes an organizational change. We're reducing -- they're reducing layers of management. It includes the manufacturing efficiency of plant closing, some procurement savings and some of the things they're doing around their portfolio. We have been through that plan in excruciating detail and been very careful to say, "What do we believe can be delivered?" And we're very confident that we can deliver $125 million of that program. And again, we've been very careful to separate that from what we consider true cost synergies, which is the combination of our business with theirs and what opportunity does that unlock, which is really incremental to what I just talked about, right? So all the areas I went through earlier in my discussion around sales and marketing, around the plant network, around the distribution, warehouse and depot consolidation. So we have a line of sight to all of these savings. Now you mentioned 13 points of margin, that's not what we're expecting on a net basis. We have set aside and expect to reinvest a portion of that back in the business to support the brands, to drive innovation, to enhance some of the supply chain protocols. And again, I think we're very confident that we can deliver this.

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

Yes. David, the only thing I'd add to that is, over the past couple of years, we have been on a very aggressive cost reduction program for Campbell's and have gone through many of the same kinds of things that Brian and his team have outlined in their transformation plan. And we delivered those savings -- overdelivered those savings a year earlier. So we know how to do this. We recognize that it's complex, but we have had experience and success in doing it in our own company.

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

Anthony, one quick follow-up. What's the tax rate that you guys assume in your accretion calculations? And then assuming tax reform occurs, what do you do with the extra fund? Does it all go to debt pay-down to go faster on that pay-down?

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

Yes. So all of our modeling in terms of valuing the company and the accretion uses existing tax rate, we'll see what happens on tax reform. Obviously, if there's a significant reduction in the corporate rate, Campbell would benefit, this transaction would benefit, but -- and that would be upside to what we're talking about here. We are committed to deleveraging and getting back to 3x debt-to-EBITDA. And if there was tax reform and a benefit, it would go to accelerating that deleveraging.

Operator

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

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

So Denise, you talked about the portfolio transformation here, and you're ending up with a portfolio that's roughly half meals, half snacks. Two different businesses, different distribution, different supply chains. But how should we think about the complementary relationship between these 2 halves of the business? And in terms of how you manage simple meals and try to generate profitable growth over time, does the need to deleverage and fund the growth in the snack business change how you think about the balance between margin and growth in simple meals going forward?

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

Yes. Matt, it all starts with the consumer, and we had identified 2 faster-growing spaces that we wanted to expand in. One was health and well-being and the other was snacking. And we've been able to by both internal innovation and also external development, advance our portfolio in both of those areas. I think that there is some overlap in the core business in that our soup and simple meals business can also be expanded into more convenient meals and soup and snack, et cetera. So there's some work that we can do there to capitalize on the macro snacking trend. And I also think, too, that Snyder's-Lance has about -- over 1/3 of their portfolio in better-for-you snacking, so bringing health and well-being credentials to snacking is something we've been working on with our real food snacking in Pepperidge Farm and Arnott's. So I do think that these converge in a way, but both spaces for health and well-being and snacking are 2 large and growing consumer spaces.

Operator

And our next question comes from John Baumgartner of Wells Fargo.

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

Anthony, just want to clarify, in terms of the route to market and your comments there about keeping the Snyder's DSD separate. Given the IBO structure of these DSDs, is it just that you don't necessarily have the flexibility or the authority to go and put Lance products on Pepperidge trucks and vice versa? Or would the owner operators be willing to cross-sell? Or are there really just not complementary geographies here in terms of synergies of that last mile of distribution?

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

Well, I think there's certainly complementary geographies. The thing is these are independent business owners that operate under contracts. Those contracts that Pepperidge Farm has are different than the contracts that Snyder's-Lance has. So we really need to get in there and understand it. I think our sort of going-in assumption is that we need to operate that independent system separate from ours, but we'll certainly look for opportunities to cross-sell and to expand the distribution of both Pepperidge Farm and Snyder's-Lance projects -- products through those systems.

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

Okay, so it is on the table at some point down the road then?

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

We'll have to see.

Operator

Our next question comes from Steve Strycula of UBS.

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

Congratulations on the deal. So two quick questions as it relates to Lance, I think you already touched on this Denise, but they're undergoing right now an early-stage transformation, involving SKU reduction, zero-based budgeting, and factory, footprint efficiencies, et cetera. How do you think about talent retention and keeping key personnel to ensure a smooth transition over the next, call it, 2 or 3 years, given the complexity of what they're undertaking? And then the second piece to my question would be, as it relates to their secondary businesses of partner brands and contract manufacturing, how do you think about whether that's core or necessary revenue to kind of keep in the pro forma portfolio?

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

Yes. Well, I think the people aspect of this acquisition is very important, and I look forward to meeting the people at Snyder's-Lance, and we will be developing a comprehensive program regarding the talent. The second piece of your question regarding the partner brands, I think it's very intriguing what they've been able to do with partner brands, particularly smaller challenger brands providing a distribution system. So we will be taking that into consideration as we review the business going forward.

Operator

And our final question comes from the line of Michael Lavery of Piper Jaffray.

Michael Scott Lavery - *Piper Jaffray Companies, Research Division - Principal & Senior Research Analyst*

Just a little bit of a follow-up on Matthew's question. Your portfolio was almost half snacks and close to half meals, but you do have that sort of 10% beverages where you have some struggles on V8 and on the Bolthouse side, and you're up against, obviously, much bigger competitors typically in beverages in general. How do you see your portfolio evolving maybe further? Is beverages a core part of it? Certainly, without that, snacks would be more than half. Is that the direction you think you would prefer to go?

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

Yes. Well, we consider the beverage business a very important part of our Campbell Fresh business. And we've been -- have a billion-dollar platform in fresh food and beverage and snacks. So that's a very strategic business for us. And in V8, we've had a tale of 2 cities, as you know. We've had some growth on our core V8 Red juice and our V8 +Energy is very robust. We've had some issues on our V8 V-Fusion and V8 Splash that we're dealing with. So -- but we will continue to review the portfolio as we do systemically as part of our annual strategic plan.

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, everyone, for joining our call today. 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 8969888. You will have until December 31 at midnight. At which point, we move our earnings call and [it's] strictly to the website, investor.campbellsoupcompany.com. Just click Recent Webcast & Presentations. If you have further questions, please call me at (856) 342-6081. If you're a reporter with questions, please call Thomas Hushen at (856) 342-5227. If you are a Snyder's-Lance investor, please contact Kevin Powers at (704) 557-8279. 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.
