Operator

Good day, ladies and gentlemen, and welcome to Campbell’s Fourth Quarter and Full Year Fiscal 2019 Earnings Conference Call. (Operator Instructions) And as a reminder, today's conference call is being recorded.

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

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

Thank you. Good morning, everyone. Welcome to Campbell's fourth quarter and full year fiscal 2019 earnings call. As usual, we've created slides to accompany our earnings presentation. You will find these slides posted on our website this morning at investor.campbellsoupcompany.com. This call is open to the media who will participate in a listen-only mode.

Turning to Slide 2. 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 the appendix of this presentation.

Additionally, concurrently with the filing of our 10-K in a few weeks, we plan to file an 8-K, which will recast historical quarterly and full year unaudited financial information, reflecting the discontinued operations as well as certain non-GAAP financial measures reconciled to the GAAP presentation.

On Slide 3, you can see the agenda we will cover today. With us on the call today are Mark Clouse, Campbell’s President and CEO; and Anthony DiSilvestro, Chief Financial Officer. Mark will share his thoughts on our performance in the quarter, our progress in fiscal 2019 against our strategic initiatives and provide his perspective on our outlook for fiscal ‘20. Then Anthony will walk through the financial details as well as our 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.

This morning, I will make high-level comments about our combined results for ease of comparison to our most recently provided sales and earnings guidance. Anthony will bridge the various components of our results, including both continuing and discontinued operations, given the sale of Campbell Fresh and the pending divestitures of the Campbell International businesses.
I'm pleased to say that in the fourth quarter, we continue to do what we said we would. This quarter showed meaningful improvement in our performance sequentially and versus a year ago across many measures. Additionally, Q4 completes a fiscal year where we've made material progress on our strategic plan across the business.

First and foremost, it starts with our performance. We are delivering results that are aligned with or exceeding our expectations, which is a critical first step in our journey to sustainable, profitable growth. We've demonstrated improved operating discipline, and this marks the fourth consecutive quarter this year that we have met or exceeded our own financial goals. It also marks the first quarter we delivered top line, gross margin and EPS growth in the year. Definitely a great way to finish.

Second, we are well on our way to completing the divestitures of the noncore businesses we identified last year, shedding the underperforming fresh businesses that added complexity to the portfolio and working toward closing on the 2 transactions related to Campbell International, both of which are expected to close in the first half of fiscal '20. This will do 2 critical things: it will improve our balance sheet; and better focus the business. In total, we expect net proceeds of approximately $3 billion from these transactions, which will be used to significantly reduce our debt.

Finally, we've also developed a new straightforward strategy, which brings clear focus on 1 geography and 2 core businesses. It's a simple yet powerful concept that enables us to concentrate our resources and investment on the things that matter most. This includes returning resources and innovation to our iconic meals and beverage brands, like our Campbell Soup business, and accelerating support on our unique and differentiated snacking portfolio, including the Pepperidge Farm and Snyder's-Lance brands.

We have accomplished a great deal this year, and I'm very satisfied with our progress. We have clearly stabilized the company from where we were a year ago and delivered improved performance over the course of the year. By no means are we declaring victory. We have much to do to continue to strengthen our businesses, improve our marketing and innovation and demonstrate executional excellence consistently. However, the actions we have taken have removed a great deal of unpredictability around our business and created a solid foundation to build upon going forward.

Now let's cover Q4 in more detail on Slide 6. This is the best quarter we have delivered in terms of performance versus prior year and provides some encouragement for the potential of our new focused portfolio, demonstrating what the business is capable of delivering.

Looking at our combined results in the quarter. Sales increased 2%. Performance in the quarter reflected continued strength in the snacks segment where organic sales increased 4% with contributions coming from across the business. In fact, we grew or held share in 8 of our top 9 snack power brands. Meanwhile, the Meals and Beverages business continued to stabilize, delivering 1% organic sales growth.

We also made progress on gross margin in the quarter, another important proof point in our turnaround. Adjusted gross margin increased 60 basis points in the quarter, a material improvement versus the third quarter year-to-date, which was down significantly.

We have also continued to successfully deliver our multiyear enterprise cost savings program. This quarter, we achieved $45 million in savings, including the Snyder's-Lance synergies. For the year, that brings our total savings to $165 million from continuing operations. We have achieved $560 million in savings program to date and continue to track to our cumulative savings target of $850 million by the end of fiscal '22.

Cash flow from operations was $1.4 billion, reflecting major improvements in working capital as we continue to demonstrate increased discipline and effectiveness in optimizing our working capital.

Turning to a discussion of our segments on Slide 8. Let's start with Meals and Beverages, which continued to stabilize. Results improved this quarter with organic sales up 1% behind the performance of soup, Prego and Pace. Declines in operating earnings moderated as we continue to drive base enablers and benefited from our selective pricing actions, which were more than offset by cost inflation. While we are encouraged by the performance to finish the year, we do not want to get ahead of ourselves. As we told you at Investor Day, there is much work ahead in fiscal '20. We still expect some volatility as we invest in the business and also make important choices to strengthen
In U.S. soup, sales increased 3%, with gains in condensed and ready-to-serve soups, which is encouraging. Obviously, the fourth quarter is the smallest of the year, and it’s important to keep in mind that we’re wrapping significant declines from a year ago. However, it's also great to see end market consumption increase 1.4% in the quarter with strong performance across the portfolio. This represents a significant improvement over the first 3 quarters.

Turning to Slide 9. Across the board, we made progress with our fiscal ’19 soup plans, which called for improving the fundamentals of the business, including improved retail engagement, pricing and promotion and marketing. This is the foundation we’ll build upon as we execute the next phase of the plans in fiscal ’20 and fiscal ’21. As we said, we're taking a full swing at soup with an integrated and holistic plan.

Here's how we're thinking about soup over the next 2 years. In fiscal ’20 on the plus side, we'll be injecting much needed investment in the businesses across quality, marketing and selective merchandising, including returning our highly relevant Pacific brand to growth. We also hope to validate the new vision for the soup aisle that was outlined at Investor Day, while continuing to strengthen important retailer relationships. We do expect some mitigating headwinds as we continue to rationalize the portfolio and increase some unsustainable promoted price points. As we've said previously, we expect a more stable soup business in fiscal ’20, with an improved trajectory in fiscal ’21 that builds upon the F ’20 learnings and increases an investment in areas that are working or redirects as necessary, complemented by a more robust innovation pipeline. This change will not happen overnight. The soup plan is a 3-year journey with fiscal ’20 being the second phase.

In other parts of the division, I'm pleased with the performance of our sauces business. As we outlined in June, we have work to do on the Prego and Pace brands, but they are responding well to the renewed focus and support. Prego delivered strong end market performance in the quarter with consumption growth and share gains. In fact, Prego has regained the share lead in the pasta sauce category, adding another #1 brand to our roster. Meanwhile, Pace performed well in Q4, fueled by increased merchandising and effective customer programs.

Turning to V8. The shelf-stable beverages category remained under pressure. While there are challenges in this business, its foundation is strong, and its plant-based positioning is on trend. V8 is the #1 vegetable juice in the U.S. and the #2 overall branded shelf-stable juice. We are continuing to work our way through some of the more disadvantaged parts of the portfolio, particularly Splash, which is driving the majority of the decline in the quarter and reshaping this business around the plant-based consumer macro trend and our single-serve business. That's our biggest opportunity with V8 Original and the differentiated V8 + Energy and hydration lines, all of which tap into the plant-driven benefits consumers are seeking.

Let's take a look at our snacks segment on Slide 11. This was another very good quarter for the business as we continue to drive strong sales performance with organic sales increasing 4%. I feel very good about the steady progress of the integration of the businesses, building on the complementary strengths of Pepperidge Farm and Snyder's-Lance. This year, we have overdelivered our value capture, while simultaneously unlocking the growth potential of this unique and differentiated portfolio by maintaining our momentum in Pepperidge Farm and applying our proven growth model to Snyder's-Lance.

Our performance was balanced across snacks. As I mentioned earlier, 8 of our 9 power snack brands grew or maintained share in the quarter. The snacks business is really hitting its stride on both the top and bottom line behind increased marketing investments to fuel sales growth and efficiencies and enablers benefiting operating profit.

I continue to be impressed with the proven growth model with Pepperidge Farm. This marks the 19th consecutive quarter of organic growth at Pepperidge with sales again increasing mid-single digits behind strong marketplace performance across all the major brands. Goldfish continued to perform well with increases on the core business. Fresh bakery continued its strong growth trajectory fueled by the renovation of Swirl and new line extensions on buns and rolls. Farmhouse cookies also had double-digit consumption gains.

Now let’s turn to the Snyder's-Lance side of the portfolio. Marketplace performance was improved this quarter, especially against our
power brands. In particular, we’re very pleased with the response of Cape Cod and Kettle to increased marketing, which drove consumption and share growth. In addition, the new campaign in Snyder’s of Hanover is making a material difference as that business continues to improve.

Now on Slide 13, beyond the power brands that we’re investing in for growth, the Snyder’s-Lance portfolio also includes what have been historically referred to as partner brands, brands that we distribute but do not own; and allied brands, regional brands that we own but are noncore. Both play a very important role by providing distribution, scale and efficiency. We remain committed to this business, but in the quarter, our snacks results include about a 1 point headwind from these brands. Within this business, there are nearly 2,000 SKUs. We’re going to better prioritize select partners to reduce complexity and improve execution, while maintaining the vast majority of this business. Looking ahead, we expect a similar headwind in fiscal ’20.

Let’s dig into the progress of our integration and value capture. I’m more than satisfied with the pace and progress of the integration. In fact, we overdelivered synergies every quarter this year. The over-delivery in the quarter and for the full year is the result of very strong performance in the 3 areas we’ve discussed previously: synergies and procurement, specifically packaging; the consolidation of the sales headquarters and related operations; and driving operational efficiency in manufacturing. In addition, the leadership team continues to do an excellent job in building a winning culture across the combined businesses.

Next on Slide 15, I want to provide what should be one of our final updates on the divestitures we identified last August. In June, we announced the agreement to sell the Kelsen business to an affiliate of Ferrero. And in August, we announced the sale of the rest of Campbell International to KKR. We expect these divestitures to be completed in the first half of fiscal ’20.

The sale of Campbell International was a long and complex process, but we are confident that the end result generated the greatest value from these assets. In total, we will receive $2.5 billion for the Campbell International businesses. When you combine that with the divestiture of the fresh businesses, we expect total net proceeds of approximately $3 billion, which will be used to significantly reduce our debt. In addition to improving the balance sheet, the divestiture of these businesses allows us to focus our resources on our 2 core North American businesses, which is already having a positive impact on our efficiency and performance.

As we outlined at Investor Day, fiscal ’19 was a reset year and fiscal ’20 will be a year of stabilization, which will include the investments we need to better support the businesses going forward. This translates to what I would characterize as relatively flat with some areas of modest improvement. This guidance reflects the next step in our journey to sustainable, profitable growth.

As I’m sure, you all read in our press release yesterday, we announced that Anthony DiSilvestro will be leaving Campbell. This will be his final call as the Chief Financial Officer of the Campbell Soup Company. He will be succeeded by Mick Beehkuizen who is joining us from Chobani. The start of the new fiscal year and the near completion of the divestiture provide an opportune time to make this change. Anthony will stay onboard until mid-October to ensure we have a smooth and seamless transition to Mick.

Anthony has made many important contributors during his more than 2 decades with Campbell. He’s enjoyed a remarkable career and played a significant role in shaping the company. I want to personally thank him for his partnership over the last several months in getting me up to speed on the business, for his leadership on the divestitures and driving the cost savings program and for the excellence and execution that has contributed to our improved performance this year. I speak for all of our employees and the Board when I wish Anthony the best as he moves on from Campbell.

With that, let me turn it over to Anthony.

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

Thanks, Mark. Before getting into the details, I’ll make a few comments on our performance in the quarter.

Overall, we had a good quarter with result exceeding our expectations. We are pleased with improving trends on our gross margin performance as we benefited from cost and productivity savings as well as from net price realization. On our cost savings program, continued good progress as we achieved $45 million in savings in the quarter from continuing operations, bringing the year-to-date total
We are pleased with the progress on our divestiture program, having recently announced agreements to sell the Campbell International businesses. Completing the divestiture program will enable us to focus on our core North American market. And with anticipated proceeds of approximately $3 billion, we will significantly reduce our debt level.

Lastly, as we announced this morning, we are providing our 2020 guidance for continuing operations. As we discussed at our Investor Day in June, we expect stable performance in 2020 as we make the investments necessary to achieve long-term growth.

I’ll now review our detailed results. In my discussion, I’ll focus primarily on the results for continuing operations. However, as we did last quarter, we will provide combined results consistent with the basis of our previous guidance. In this case, we will combine the results of continuing operations and the results of Campbell International.

I’ll start with continuing operations. For the fourth quarter, net sales on an as-reported basis increased 2% to approximately $1.8 billion. Organic sales also increased 2% with gains in snacks as well as in Meals and Beverages.

Adjusted EBIT of $252 million increased 1% as sales gains and gross margin improvement were partly offset by higher marketing and selling expenses.

Adjusted EPS from continuing operations increased by 14% or $0.05 to $0.42 per share primarily due to a lower adjusted tax rate and a reduction in interest expense driven by strong cash flow and proceeds from the Campbell Fresh divestiture.

For the full year, net sales from continuing operations on an as-reported basis increased 23% to $8.1 billion benefiting from acquisitions, while organic net sales were comparable to the prior year as gains in snacks were offset by declines in Meals and Beverages.

Adjusted EBIT from continuing operations increased 1% to $1.266 billion, and adjusted EPS of $2.30 was down 8%, reflecting the incremental interest expense from acquisitions and a lower adjusted tax rate.

And now on a combined basis, and consistent with our previous guidance, net sales for the quarter increased 2% to $2 billion, adjusted EBIT of $288 million increased 2% and adjusted EPS, which exceeded our expectations, increased by 14% to $0.50 per share.

For the full year, combined net sales increased 18% to $9.2 billion, reflecting the acquisitions of Snyder's-Lance and Pacific Foods. Adjusted EBIT decreased 1% to $1.422 billion, and adjusted net EPS of $2.63 declined 9% versus the prior year.

Volume gains were driven by snacks, while pricing gains were achieved across our 2 segments.

Promotional spending was flat year-over-year, while the impact from currency translation in the quarter was neutral. As we refocus our portfolio in North America, we would expect currency translation impacts to be minimal. All in, our as-reported net sales were up 2%.

We are pleased with our gross margin results as we continue to achieve sequential improvements in performance. For continuing operations, our adjusted gross margin percentage increased by 60 basis points to 33.7%.

Cost inflation and other factors had a negative impact of 320 basis points. On a rate basis, input prices increased approximately 4%, reflecting higher prices on steel cans, vegetables, aluminum and wheat.

Going the other way, our ongoing supply chain productivity program contributed 140 basis points, and our cost savings program added
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130 basis points to gross margin expansion. Net pricing contributed 50 basis points as we benefited from list pricing actions across several key categories and from lapping cost incurred related to the Flavor Blasted Goldfish recall last year. Reflecting strong sales gains in U.S. Soup, mix was favorable by 60 basis points, bringing the gross margin percentage to 33.7%.

Moving on to other operating items. Marketing and selling expenses increased 10% in the quarter primarily reflecting increased marketing investment on snacks and higher incentive compensation, driven by improved performance partly offset by benefits from cost savings initiatives.

Adjusted administrative expenses increased 5% to $139 million due primarily to the increased incentive compensation expense, partly offset by the benefits from 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 $0.05 from $0.37 in the prior year quarter to $0.42 per share. On a currency-neutral basis, adjusted EBIT had no impact on EPS as our increase in sales and gross margin were offset by higher marketing and selling expenses. Net interest expense declined by $5 million, a $0.01 positive impact to EPS as we have used our strong cash flow to reduce debt.

Adjusted EPS benefited from a lower adjusted effective tax rate, adding $0.02 to EPS. Our adjusted effective tax rate declined by 4.2 points to 25.6%, benefiting from the reduced U.S. federal rate.

And lastly, currency translation had no impact on EPS this quarter, completing the bridge to $0.42 per share.

Now turning to our segment results. In Meals and Beverages, organic sales increased 1%, reflecting sales gains in U.S. Soup, Prego and Pace, partly offset by declines in V8 beverages. Sales of U.S. Soup increased 3% versus the prior year driven by gains in ready-to-serve and condensed soups.

Segment operating earnings declined 3% to $151 million. The decline was driven primarily by cost inflation and higher incentive compensation expense, partly offset by supply chain productivity gains, the benefits of cost savings initiatives and the benefit of list pricing actions.

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 28, 2019, the category declined 1.5%. Our sales in measured channels, including Pacific, declined 3.7% and our market share declined by 130 basis points. Private label sales grew 5.9% with a market share gain of 120 basis points. All other branded players collectively experienced a sales decline of 80 basis points, gaining 20 basis points of market share.

As shown on the chart, our consumption and share trends are improving. For the 13-week period ending July 28, our sales in measured channels increased 140 basis points with share declining just 90 basis points.

In Campbell Snacks, sales in the quarter increased 3% to $967 million. Organic sales increased 4%. This performance reflects continued momentum in Pepperidge Farm bakery products, Kettle Brand potato chips, Snack Factory Pretzel Crisps and Late July snacks as well as gains in Pepperidge Farm Goldfish crackers as the company lapped the negative impact of the voluntary recall in July 2018. As Mark mentioned, 8 of our 9 snack power brands grew or held market share in the quarter.

Segment operating earnings increased 2% to $133 million as sales growth, cost savings and productivity gains were partly offset by cost inflation, increased marketing investment and higher incentive compensation.

Cash from operations for fiscal 2019 increased by $93 million to about $1.4 billion, reflecting significant improvements in working capital performance and higher cash earnings.

The cash outlay for capital expenditures was $384 million, $23 million lower than the prior year.
Dividends paid in the amount of $423 million were comparable to the prior year, reflecting our current quarterly dividend of $0.35 per share.

Net debt of $8.533 billion declined by $1.135 billion compared to the prior year as positive cash flow generated by the business and proceeds from the divestiture of Campbell Fresh were used to reduce debt. We expect to close the divestitures of the Campbell International businesses in the first half of 2020, and we'll use the proceeds to further reduce our debt levels.

We are very pleased with the progress we've made on our divestiture program. On Campbell International, we now have agreement to sell our Kelsen business for $300 million and the balance of Campbell International for $2.2 billion. As mentioned, we anticipate closing on the international transactions in the first half of fiscal 2020.

Together with the divestiture of our Campbell Fresh division, which was completed in the fourth quarter, we expect divestiture proceeds of approximately $3 billion. And as discussed, these will be used to significantly reduce our debt level. The results of these businesses are now being reported as discontinued operations.

For fiscal 2020, we are providing guidance for continuing operations, which excludes the results of Campbell International and Campbell Fresh. Fiscal 2020 is a 53-week year, including 1 additional week, which is included in our guidance and has about a 2 percentage point impact across net sales, EBIT and EPS. With our portfolio now focused in North America, currency translation is not expected to have a material impact as non-U.S. dollar sales are now less than 10% of the total. Net sales are expected to increase 1% to 3%, reflecting the extra week, growth in snacks and improving trends in Meals and Beverages.

Adjusted EBIT is expected to increase by 2% to 4%, reflecting sales growth and the benefits from our cost and synergy program and productivity gains, which are funding planned increases in marketing support.

Adjusted EPS is expected to increase by 9% to 11%. As I'll detail for you in a moment, EPS is benefiting from the use of the divestiture proceeds, including those anticipated from Campbell International to reduce debt.

Although we don't provide quarterly guidance, I will say that we expect our first half results to be negatively impacted by accelerated marketing investments to support our snacks business and to improve the performance of U.S. soup. In addition, we expect cost inflation rates to moderate gradually throughout the year.

Given the many moving parts to our financial reporting, we thought it would be helpful to provide additional details behind our EPS guidance. As discussed, 2019 results are a combination of discontinued and continuing operations. From the 2019 continuing operations base of $2.30, EPS will benefit from several drivers in 2020.

First, interest expense will benefit from the use of C-Fresh divestiture proceeds and the anticipated proceeds from the international divestitures. Based on our anticipated closing in the first half, we expect an interest benefit of approximately $0.16 per share. This estimate is based on currently anticipated closing dates, and to the extent those change, we will update you.

Next, the additional week will add approximately $0.04 per share, while growth on the base business on a like-for-like basis add $0.00 to $0.05. Together, these drivers get us to our 2020 adjusted EPS guidance for continuing operations of $2.50 to $2.55. If you're using these numbers to calculate the dilution from our divestitures, please note that the interest benefit shown here is only a partial year. There's an estimated incremental $0.07, which we'll wrap into 2021.

Turning to some of the key assumptions underlying our guidance. Although moderating somewhat, we expect cost inflation to be approximately 3% in 2020. 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 2% to 3% of cost of products sold. Against our cost savings program, we expect to deliver an additional $140 million of cost savings, including a meaningful contribution from Snyder's-Lance synergies. Including the anticipated benefit of divestiture proceeds, we are forecasting interest expense in the range of $290 million to $300 million. Below the line, and comparable to this year, we expect the adjusted tax rate to be approximately 24%. We are forecasting capital expenditures of
approximate $350 million, a decrease from 2019 spending, reflecting the divestiture program.

Lastly, and as Mark mentioned, I will be leaving the company to pursue other interests. I have very much enjoyed my time here and certainly wish the company all the success going forward.

That completes my review. And now I'll turn it back to Ken for the Q&A.

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

Thanks, Anthony. We'll be happy to take your questions. Candace, 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

And Anthony, all the best going forward. Thanks for your help over the years. Just 2 other things. One would be, Mark, I realized fiscal '20 is not yet the year where you have everything firing in terms of reframing the soup category. Perhaps you could run through maybe just the sort of top 2 or 3 things in that core soup business that we should be focused on really in order to monitor the progress as we go through sort of the coming soup season, maybe those key benchmarks or metrics that we can sort of focus on, again, to monitor the progress. And then just second, as we think through the relationship between inflation and productivity and such, it seems like you're looking for, I would assume, productivity and maybe some incremental pricing to about help offset what you expect inflation to be. Is it right to think that, that leaves the cost and synergy savings really as the -- what's -- what you have as flexibility to reinvest behind the business this coming year, kind of that sort of $140 million bucket and such?

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

Yes. Thanks, Andrew. Well, let me start with the soup question first. And maybe it'll be helpful to give a little bit of context on what we're seeing in the marketplace right now and then how that kind of leads into the 2020 assumptions. So on the positive side, a couple things that we're finding are very helpful. And it was great to see -- albeit the summer and the fourth quarter, it was great to see growth on soup. It's the first time in quite a number of years that we've been able to drive growth on the business. And I think if you look under what's really driving that, I think there's 3 things. The first is the power of partnering again with our retailers to really collaborate with them on creating a vision and direction for the category and for the business. And I think, in many ways, that is translating into far better performance in market, better merchandising, better reflection of our innovation that we do have and a good understanding of the right merchandising and pricing combination.

I think the other thing that's been very effective has been the almost relaunch of Well Yes! behind a convenience platform. In the fourth quarter, that business was up 34% and added 0.3 of a share point. And so although we're light on innovation, as we've said in the past, I think the things that we are doing are working well. And so I would expect those positive drivers to carry forward into the 2020 season with the addition of a couple meaningful adds to that. So our marketing and the strength of both the investment levels as well as the quality of that communication, I'm very excited about as well as the investment in quality and some additional investments in pricing and the shelf, while we continue to cultivate those relationships with partners -- our retail partners as we go forward. I do think, though, there are a couple of headwinds that will moderate that, and I'll get to the kind of benchmarks at the end.

If you look under the results today, you do see a fair amount of contribution in the headwinds related to distribution. So where this is coming from is some of the flankers on the ready-to-serve side as well as, what I would call, some of the tail, if you will, of the condensed business. The majority of this distribution loss is not regrettable losses, but it is providing a bit of a headwind to the business. I do think that will moderate as we go through 2020, but I do expect still some headwinds from that.

And then on the merchandising side, it will be a little bit of a balancing act. I expect to see us more aggressive on businesses like broth, where we're seeing a lot more competitive tension, especially with private label. And I would see promoted prices in some places where
there are just unsustainable levels going off, which I know, and as we expect in the near term, we'll see a little bit of headwind from there.

So as you go into the season, I think you'll want to look for: one, the executional performance of seeing the additional supported merchandising and market, the quality of that, the improvement on the products and the improved quality on the businesses as well as a more balanced approach to pricing. And my expectation is that you should expect them to see a more stable performance through the season. I certainly am hoping and I think it we hit things on all cylinders, we'll see improvement in share as well. But I also think we're being prudent in setting expectations in a balanced way as we really validate some of the work we're doing. But I think, going through the season, if you were to see a more stable performance and an improving trajectory on share, I think that would be a successful season and I think a great proof point on this next iteration of the business going forward.

And then Anthony, I don't know if you want to take the second question. We can kind of do it together probably.

Anthony P. DiSilvestro  
_Campbell Soup Company - Senior VP & CFO_

Yes, sure. Sure. Andrew, thanks for the comment. I think the way to think about it is on our $140 million cost savings, think about half of that going into cost and the other half going into marketing and SG&A. So within gross margin, that combination of cost savings and productivity savings should be ahead of inflation. So it gives us some slight improvement in gross margin percentage. And then that will provide the fuel to reinvest back into the marketing line as we go into 2020.

Mark A. Clouse  
_Campbell Soup Company - President, CEO & Director_

Yes. I just would say, Andrew, as you think about that, though, one of the things we've tried to do in this plan is there's a little bit, in my mind, I would say, flexibility that we want relative to pricing and making sure that our price gaps remain within the targets that we want them. So I think we've -- as you'll note from how we've laid out guidance, we've stopped short of guiding directly to gross margin because I do think we want a little bit of that flexibility. But I think the general balance of investment, as it relates to inflation and productivity, as Anthony laid out, is right. All I would say is I want to leave us a little bit of flexibility where that investment might land, depending on how we see the environment unfold. Does that make sense?

Andrew Lazar  
_Barclays Bank PLC, Research Division - MD & Senior Research Analyst_

Great. It does. Really appreciate the color.

Operator

And our next question comes from Ken Goldman from JPMorgan.

Kenneth B. Goldman  
_JP Morgan Chase & Co, Research Division - Senior Analyst_

And Anthony, best of luck from me as well. Thanks for all your help over the years.

Anthony P. DiSilvestro  
_Campbell Soup Company - Senior VP & CFO_

You're welcome.

Kenneth B. Goldman  
_JP Morgan Chase & Co, Research Division - Senior Analyst_

Mark, on Slide 13, I think it is, you highlighted, I think, 17% of the snacking business being noncore and sort of broke out how you think about classifying some of those assets. History might suggest that when companies do this sometimes, the signal is that somebody's businesses are being considered for divestiture. So I wasn't sure if that's what you're implying by breaking it out and emphasizing it in this way, but I kind of wanted to just get a little bit more color on what you're -- on the messaging from that slide.

Mark A. Clouse  
_Campbell Soup Company - President, CEO & Director_

Yes. Thanks, Ken. I think that the point of it was I do think it's more about the 11%, which is the partner in allied brands. I know everybody is familiar, in general, with what those are, but we haven't talked a lot about it. And I think as we've gone through it, we've now spent a year or so running it, we recognize the importance of that business. But I also would say there is a tremendous amount of complexity that's inherent with that. If you think about the addition, as I've said in my comments, of almost 2,000 SKUs that we're trying to manage, what I would tell you is there's some really good parts of that business and there's some other parts that are very low margin, adds a lot of complexity. And I think as we go forward and we really want to get this business set for the future, we're going to balance that, so
focus on the parts of it that we really see as enhancing that efficiency and scale as it was originally set up to do. And there's probably some parts of that, that we'll rationalize going forward. And I know a lot of times, as we reconcile the growth rate on snacks, for example, in this particular quarter, our power brands on Snyder's-Lance grew 3% in market, while the total Snyder's-Lance business was up about 1.5% or so. And that difference, I think, is important just to understand that going forward, as I would expect that to continue going forward.

The balance of the noncore businesses, which are primarily our Emerald nuts business and our Pop Secret business have actually been pretty stable contributors. And right now, we'll always kind of review the portfolio and look at the longer-term desire to have the optimal mix. I think, right now, we're feeling pretty good with that base business as we move forward, and we'll continue to look at it. But more importantly, for us, I think, this messaging was really about understanding the partner in allied brands a little better.

Kenneth B. Goldman  JP Morgan Chase & Co, Research Division - Senior Analyst
Okay. That's helpful. And then some of the efforts that you're making this year require a little bit of a buy-in, for lack of a better word, from your customers, right, whether it comes to some on-shelf changes for where you'd like condensed to be placed or certain changes in RTS. And at the same time, I think, by your own admission, there's a decent innovation slate coming, but most of it or the bigger one is coming next year. So can you update us on sort of how your relationship is with those customers right now? And with all of those changes, and I guess I could mention sort of lifting some promotional prices as well right now, is everything going sort of swimmingly or as you expected? Or is there a little bit of pushback right now in the process?

Mark A. Clouse  Campbell Soup Company - President, CEO & Director
I think overall, it's -- I would say it's going very well. And in fact, I think, in many ways, it's a little harder to quantify this as you get into the journey. But the reality is, I think, in many ways, we've been absent from the dialogue strategically with our customers on the vision and the future for these businesses. And I think as we're getting back to the table really rolling up our sleeves and starting to see investment come and a focus in a very different way, the receptiveness to work together has been very, very positive. And I think a lot of times, we've talked about the challenges in soup as a category. But remember, the significance of how big this category is and what it represents for center of store for most of the retailer universe, it's critical that there is a vision and a plan for this. And so as you look, again, it's the summer quarter. But as you look at the quarter like Q4, where you see overall positive response not just in our business, but also improvement in the overall category, it goes a long way towards keeping people interested and engaged.

Now I will say, I think as perhaps as appropriate, I think a lot of the retail universe wants to see the results as, I think, all of us in the effectiveness of some of the programs and the plans we're doing. But as far as where we are in the journey right now and where we've come from, I really could not be more pleased with the receptiveness and the collaboration of our retail partners.

Operator
And our next question comes from Bryan Spillane from Bank of America.

Bryan Douglass Spillane  BofA Merrill Lynch, Research Division - MD of Equity Research
And all the best from me as well, Anthony. Thank you.

Anthony P. DiSilvestro  Campbell Soup Company - Senior VP & CFO
Thanks, Brian.

Bryan Douglass Spillane  BofA Merrill Lynch, Research Division - MD of Equity Research
So I guess first question, just -- Anthony, if you could just give us -- or let us know net leverage on a pro forma basis. So like, once the proceeds are put to work, I'm getting around 3x. Is that right?

Anthony P. DiSilvestro  Campbell Soup Company - Senior VP & CFO
Yes. Obviously, I mean, our target remains 3x debt to EBITDA, but we won't quite get there with the current proceeds. We need a little more time with the base business generating positive cash flow, but we will make a meaningful reduction when we get the proceeds in.
Okay. And then I guess, Mark, as we're thinking about that, you're going to get closer to that target. How do you think about ongoing sort of returning cash to shareholders? Just the thoughts about dividend increases or share repurchases, just how you kind of think about that going forward.

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

Yes. I mean I think as we get to more stable footing, we will continue to look at the best deployment of capital. And again, I think, all of those are areas that we will continue to explore and make sure that we're trying to optimize value, while also -- again, I've said this before, although I think it will come in a very different context, perhaps, than where we've been in the immediate past, but I do think there are going to likely be some opportunities for some tuck-in M&A as well. And as we go forward, we'll begin to frame that in a little bit more clarity. But I do think I'd stop short to say right now what the priorities are. But of course, our focus is going to be on maximizing shareholder value, and we'll continue to look at all those options and working with the Board to find the plans going forward. But certainly, it is good.

And I think in many ways, as I think about '19 as we complete the year, I think one of the strongest elements of that -- of this year has been that we have taken a lot of that uncertainty for the business off the table. And so whether that is the balance sheet, whether that is a much more diverse portfolio as it relates to international and the fresh business, I think the good news for us is our core business now and the predictability of it relative to the variables that we're controlling, I feel really good about that. And I think that -- I hope that will also be a strong statement for investors as well as you're thinking about how to view our business going forward. And although we've got some important proof points in '20 to deliver, taking some of that downside off the table, I think, is a very good progress for us in a year that saw a lot of moving parts.

Okay. And if I can, just one last quick one. Are there any stranded cost related to the divestitures that you'll be absorbing this year that might go away next year?

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

Yes. And I think we talked about this last quarter. There's about $20 million with each business, both Campbell Fresh and Campbell International. I think the way to think about it is that then becomes part of our addressable spend on the core against, which our cost savings program that's going to address and get after. Yes. Or said another way, Bryan, we contemplated, to a certain degree, those stranded costs as we went through the organizational redesign and restructure that we just rolled out a month ago. So the progress to get there, but we certainly had visibility to that and thought about that in some of the design work we've been doing.

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

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

And Anthony, congrats on a great career at Campbell, and good luck on the next chapter.

Thanks.

I've got a couple questions. First, real quick housekeeping kind of picking where Mr. Spillane led us on the leverage. Can you give us your expectation for cash from operations in fiscal '20 and your best estimate of where you're going to land from a leverage perspective by year-end?

So there's a couple of comments to make on cash, but we had a fantastic year this year on cash from operations and free cash flow. But as you think about going forward, we don't expect to be at the same level we are to date. And first of all, 2 reasons. One is Campbell
Fresh was a positive cash flow generator. Campbell International was a positive cash flow generator. We won't have those in the portfolio going forward. We had great progress on working capital this year. And so although we expect to continue to reduce our working capital probably not at the same pace that we did this year. So that being said, we do expect to continue to generate significant positive cash from operations. That's one of the attributes of this business. But I don't think we're going to give you an exact number on that one. And in terms of the leverage ratio, I think we'll be meaningfully below 4x debt to EBITDA by the end of 2020.

Jason M. English Goldman Sachs Group Inc., Research Division - VP
And is the unwillingness to kind of frame the cash flow a factor of just too many moving pieces right now? I guess I'm a little confused on the lack of clarity on that.

Anthony P. DiSilvestro Campbell Soup Company - Senior VP & CFO
Yes. I mean we're still working through it in terms of finalizing our 2020 expectations for cash flow. And so just we need to work through it ourselves, first and foremost.

Jason M. English Goldman Sachs Group Inc., Research Division - VP
Okay. And the next question coming back to soup. The last couple of years have been a bit anomalous just in terms of the cadence to your soup build because of the promotional support at retail. And historically, you've been much heavier shipping in the first quarter in perhaps for a soup season. With the improved relationships to retailers and the slightly more aggressive stance, should we expect this to be a more normalized year?

Mark A. Clouse Campbell Soup Company - President, CEO & Director
Yes. I think so, Jason. We're watching closely. I mean one of the things we are realizing, though, is that -- and even if you look at this last quarter, we've been kind of, I would say, running a bit in front of consumption with our net sales and our shipments. And part of that is a little bit of what we're lapping from a year ago, but it is also a little bit of the recognition that, as we strengthen our merchandising programs, the inventory levels that retailers are needing to support that is a little bit higher than it might have been historically. But I do expect as we get into '20 to have a more normalized year on that. You'll always see a bit of inventory that's going to build in front of the season just because of the step-up in display and merchandising. But I do think, as we kind of manage through the year, I don't think you'll see quite the volatility up and down as we did in '19.

Christopher Robert Growe Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Analyst
I just want to ask a quick question, if I could. On Meals and Beverages, it's a business that is stabilizing. And you had a good fourth quarter performance, and that comes amidst it seemed like little incremental spending this year. You talked about some of the factors that led to the better performance, but I want to get a sense of -- given the success you're seeing already and your desire to spend more aggressively in fiscal '20, do you expect that to really take a step forward in fiscal '20? If I can relate to that, how much spending -- you talked about $70 million, if I recall, or so at the Investor Day. Does that -- all of that come through in fiscal '20? Or is that going to spread over the future?

Mark A. Clouse Campbell Soup Company - President, CEO & Director
Yes. So a couple of things just to ground back on the numbers. So the $70 million we talked about was the soup investment. Overall, if you include the snacks business and the broader Meals and Beverages business, it's a bigger number. What we said was about a half -- about half of our cost savings target over the next couple of years is what we've carved out, if you will, as the investment dollars we're planning. I do think you'll see that a bit more front-loaded in 2020 as we talked about it, which is a little bit of why I think the calibration
of a more neutral year is expected.

On Meals and Beverage, I do think there continues to be some puts and takes. We are encouraged by the support that we're seeing across the businesses. But we do have some work, as we've said, to make sure that we're doing the right things to set up the portfolio for the future, while getting that investment in place. And again, I do think an important aspect of this will be the contribution from innovation, which really is more of a '21 factor.

I also think we're trying to be a bit pragmatic in how we're positioning expectations as we validate some of the work that we're doing. And I think the good news is if we're successful more comprehensively on many of these things, I do think you'll see an improvement in that Meals and Beverages business as we go forward. And I think we will continue to update milestones along the way. But certainly, seeing the performance on soup, seeing improvement in Prego and Pace, although V8 is still showing declines, I would tell you that the primary driver of that decline is Splash as we work through how we want to position that business for the future, which is including some rationalization on distribution and really trying to get that to a business that we think is the appropriate manageable level, while we then pivot on support for the more plant-based messaging that we see on the core V8 business as well as the V8+, which is energy and hydration, and our single-serve can business.

So again, I think we've got really clear roadmaps now for these businesses. And I certainly hope that we continue to perform well. But I do think I want to be a bit balanced as we go forward until we validate some of this effort and some of the work. Does that make sense, Chris?

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

Yes, it absolutely does. Yes, that makes a lot of sense. That was good color and that's what I was looking for. I have just one other quick one behind that, if I could, also said the integration was on track. Are you getting savings more quickly or more savings? Just trying to get my head around what overdelivering means there.

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

Yes. I think it's really savings more quickly. So I think we've been able to execute on a few initiatives ahead of pace. I don't think it's truly incremental to the program, but I do think we're obviously continuing to keep that pressure on as we go into '20 to continue to try to move initiatives as fast as we can, as we want to unlock that and as that's the fuel for the investment that we need on the business. We're pleased that we're getting to it sooner, but I would not say that we're seeing it as truly incremental savings for the overall program.

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

And best wishes to you, Anthony. Just a couple of clarifying things, Mark. The price adjustments that you're making in soup, it sounds like there's several things. Is there some deep discounts you want to walk away from? But then you're -- are you also saying that there's going to be some items where you want to reduce price to become more competitive? And then secondly on soup, can you give us a little more specifics on the quality improvements that you want to make and where you think there's quality gaps versus competition?

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

Yes. Great question. So your depiction of the pricing is exactly right. So to give you a little bit more color on that, I do think, especially as you look at our Chunky business, I would say we -- in the absence of some of the support in marketing, I think some of the promoted price points that we've seen are more aggressive than what I would say is appropriate and sustainable. I mean one of the things that as I've said before that's quite powerful about Chunky is the quality of that product and its ability to really be -- to beat essentially any of the other ready-to-eat soups on a quality perspective. And so when we're dealing it so deep on price, I just don't think that's the right platform. Now what we will try to do is balance a little bit of that with some frequency and then, of course, a much more robust marketing program around it. And I think, though, and as we've all seen this before, I also don't want to overset those expectations, as I know there will be some, perhaps, short-term impact of that as we move often. But it's absolutely the right thing to do to create the margin stability and really the positioning of the brand going forward.
Conversely, I think if you look at broth, where we’re seeing the greatest amounts of competition, I think there, although I’m not -- I would not say we want to get deeper on promoted price points, I do think our frequency has opportunity to increase as we make sure that those price gaps, especially in critical parts of the season, are more competitive. And so I think on both the broth business and selectively on condensed where we still see a little bit of outlier as it relates to particular price gaps, I think you’ll continue to see us, again, not so much on lowering absolute price points, but adding appropriate frequency on merchandising. So that’s the balancing act on pricing.

And your second question is actually a great combination to that discussion on pricing, which is quality. So the places where I think we have the greatest competitive pressure, whether it’s on broth or whether it’s on condensed, is where you’re going to see a significant step-up in quality. And that will come both from some product improvements and investment. So think of enhancing ingredients. And again, as I’ve said in Investor Day, we’re really focused on our 4 core SKUs and flavors on condensed, which are cream of mushroom, cream of chicken, chicken noodle and tomato. So across all 4 of those, you will see a combination of improvement in quality, while also really heightening some of the inherent benefits of the products within the existing formulations that, we think, are much stronger differentiation than we’ve been using in the past. Whether that is double stock and simmer time on broth, whether it’s 6 tomatoes in every can of tomato soup, there’s a variety of things that we think we can really use to help. And we've done extensive research now, too, to really understand, especially on our lapsed users. So the consumers that are either trading the lower-price offerings or departing our segments, what is really driving that behavior, and we've targeted the quality improvements to really try to answer those questions.

And so we're feeling really good about that. And I think most of that will be ready. As we go in the season, there will be a few of the quality improvements that will either flow in, in the back half of the season or a couple that likely won't be fully in place until ’21. But I am feeling good about what we'll have to work with as we go into the ’20 soup season.

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

It was already contemplated. But I do think, as we start to try to help everybody see the detail of the soup results, because we're all obviously going to be watching it very closely, what I'm really trying to do is make sure we're really crystal clear on what the puts and takes are and, to a certain degree, why our expectations what they are, I do think there are some elements within that distribution that, again, I do expect it to mitigate. And of course, once we get the innovation going, that's going to be a big help. But I do think there are some things within both of those businesses that I would expect to see, especially in the first half of the year.

Operator

And that concludes our question-and-answer session. 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.