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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Campbell Soup Third Quarter Fiscal 2019 Earnings Call. (Operator Instructions) As a reminder, this conference call is being recorded.

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

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

Thank you. Good morning, everyone. Welcome to Campbell's Third Quarter 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 risk. Please refer to Slide 2 or our SEC filings for a list of factors that could cause our actual results to vary materially from those anticipated in forward-looking statements.

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

Additionally, we filed an 8-K this morning, which recasts historical, quarterly and year-to-date unaudited financial information reflecting the discontinued operation and changes in our segment reporting 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 perspective on our performance in the quarter and the progress we have made against our strategic initiatives, then Anthony will walk through the financial details of the quarter as well as our fiscal 2019 financial guidance.

One final item before we open our discussion for the quarter. We would like to remind analysts and institutional investors that we will hold our 2019 Investor Day at Campbell's world headquarters in Camden on Thursday, June 13.

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. For clarity, this morning, I will make high-level comments about our total company performance, described as total combined results in our press release, as it reflects how we managed the business during the quarter and enables an apples-to-apples comparison against our past performance. Anthony will bridge the various components of our results, including both continuing and discontinued operations given the announced sale of Campbell Fresh.

At a high level, much like last quarter, we are doing what we said we would. Throughout the third quarter, we continued to make steady progress against the key priorities we outlined last August in our strategic and portfolio review, including stabilizing our in-market performance, integrating the Snyder's-Lance business and accelerating growth in our U.S. Snacks portfolio.

We also continued to deliver our enterprise cost savings program while focusing and optimizing our portfolio through divestitures. I'm even more encouraged that in this quarter, we delivered results that were ahead of our expectations. This marks the third consecutive quarter this year where we have met or exceeded our goals, which is a necessary first step in our journey to deliver steady and dependable results.

Based on our performance through 3 quarters and our outlook for the remainder of the year, we now expect adjusted net EPS to increase from our previous guidance range of $2.45 to $2.53 per share to $2.50 to $2.55 per share, reflecting improvements in our business as well as the expected impact of the Campbell Fresh divestiture.

Looking at our total combined results in the quarter, sales increased 12% and organic sales within continuing operations were comparable to the prior year. We had stable top line performance with organic sales trends improving in the quarter relative to the first half.

Performance in the quarter reflected strength within Global Biscuits and Snacks driven by the continued growth of the U.S. Snacks portfolio. Pepperidge Farm and Snyder's-Lance grew share in the majority of their core brands. Meanwhile, the Meals and Beverage business is beginning to show signs of stabilization. This is clearly a work in progress, but I'm encouraged by the improved trends.

We also made progress on gross margin in the quarter, an important proof point in our turnaround. Adjusted combined gross margin declined 40 basis points in the quarter, a material improvement versus the first half, which was down 460 basis points. The Q3 decline was driven by the negative mix impact of the Snyder's-Lance acquisition and cost inflation. However, ongoing productivity improvements, continued strong execution on our base cost savings programs, including the value capture of the Snyder's-Lance synergies, were able to mitigate a significant amount of the headwinds. This resulted in adjusted earnings per share declining compared to a year ago but stronger than our expectations.

The team has continued to successfully execute our multiyear enterprise cost savings program. This quarter, we delivered $55 million in savings, including the Snyder's-Lance synergies. That brings year-to-date savings to $150 million, which is ahead of our original plan of $120 million. We now expect to deliver $180 million in cost savings in fiscal 2019, including savings from Campbell Fresh. This will help offset cost headwinds we're managing while still delivering our commitments and, going forward, will serve as fuel for investing back in the business for growth.

Another area of emphasis for the company is cash flow from operations, which year-to-date increased to $1.1 billion, reflecting major improvements in working capital. We continue to demonstrate increased discipline and effectiveness in optimizing our working capital and capital spending.

Turning to a discussion of our segments on Slide 9, let's start with our Meals and Beverages segment. Performance continues to be mixed across our brands, but our results were ahead of our expectations for the quarter. Organic sales were comparable to the prior year compared to declines of 3% in the first half of fiscal 2019. The Meals and Beverage business is showing signs of stabilization, particularly from a profitability perspective. Declines in operating earnings moderated in the quarter as we continued to deliver base enablers, decreased inefficient promotional spending and benefited from our recent pricing actions. While we are encouraged by the improved sales and profit trends, there is much work ahead.

On the U.S. Soup business, sales were comparable to a year ago. In-market consumption declined 2.6% in the quarter, a noticeable improvement in trend versus the first half of the year, which was down 5.5%. The difference between sales and in-market consumption was driven by favorable timing on new revenue recognition accounting, which offset the consumption decline and some expected inventory reduction to start the quarter.

We are successfully executing our fiscal '19 soup plans, which are focused on improving the fundamentals of the business, including pricing and promotion, marketing and innovation. This will establish a solid foundation that we can build upon in the future. In particular, I'm encouraged with the progress the team is making in stabilizing the condensed soup portfolio and improving trends with key retail partners. In fact, over the latest 4 weeks, condensed soup consumption was positive.

While we have started to chip away at the challenges, we still have much to do to position this business for improved and sustainable results. At our Investor Day next week, we will provide an overview of our go-forward plans for how we will win in soup. As I stated last quarter, changing the trajectory of this important business will require a holistic approach to building consumer relevance through strengthening the product, the packaging and the pricing structure.

Additionally, we will need to improve investment levels to support the brands, and we'll also need to optimize the network to establish a profitable and sustainable business model going forward. Change will not happen overnight, but we are building confidence that we can win in soup again.

Turning to our Global Biscuits and Snacks segment. Excluding the benefits of the acquisition of Snyder's-Lance and the negative impact of currency, organic sales increased 1% driven by the continued strong performance of Pepperidge Farm, fueled by fresh bakery and Goldfish crackers. This growth was partially offset by softness in our international snacks business.

A year after completing the acquisition of Snyder's-Lance, we are making steady progress on the integration of our U.S. Snacks businesses, building upon the complementary strengths of Pepperidge Farm and Snyder's-Lance. The combined U.S. Snacks business delivered strong sales growth across the portfolio with organic sales growing by low to mid-single digits. In the quarter, 7 out of our 10 core brands grew or held share.

I continue to be impressed with the proven snacks growth model at Pepperidge Farm. This marks the 18th consecutive quarter of organic growth with sales increasing mid-single digits behind strong marketplace performance across all major brands. A strong proof point to the capability of the team is the turnaround of a tough fresh bakery business as it continued to generate strong growth behind rolls and buns, the Farmhouse brand and the recent restage of our Swirl line, where we improved both the product and the packaging.

Our cracker business also gained momentum in the quarter, fueled by our largest brand, Goldfish. We continued to gain share, driven by base sales growth and the introduction of the new Epic Crunch line.

Now let's turn to the other half of the U.S. Snacks business, the Snyder's-Lance portfolio. Marketplace performance was mixed in the quarter but is trending upward in the last 4 weeks following the activation and increased advertising investments in 3 of our core brands: Snyder's of Hanover, Kettle and Cape Cod. We continued to deliver strong performance on late July with consumption increasing by double digits.

The snacks team has put in significant work to position these brands for long-term success including building relevant consumer insights, accelerating ownable renovation and innovation and increasing brand investments. The early signs are encouraging as we activated against these Snyder's-Lance brands. We expect performance trends on these brands to continue to improve in the fourth quarter as we deploy needed investment and leverage the best of both playbooks from Pepperidge Farm and Snyder's-Lance.

We expect to overdeliver Snyder's-Lance value capture plans in fiscal 2019, and we're on track to deliver against the expected savings of $295 million by the end of fiscal 2022. The overdelivery in fiscal '19 is the result of capturing synergies in procurement, specifically in packaging, the consolidation of the sales headquarters and related operations, and manufacturing efficiencies.

Beyond the synergies, I continue to be pleased with the progress and the pace of the overall integration. The snacks leadership team has created new ways of working and instilled greater discipline across the combined division. The team is focused on achieving our savings targets while also accelerating the growth of this key business. We look forward to sharing more details next week on our plans to fully unlock the growth of this advantaged and unique snacking portfolio.

Next, on Slide 11, I want to provide a quick update on divestitures. In April, we announced the agreement to divest the Bolthouse Farms business, which is the largest and the final business to be sold on the Campbell -- of the Campbell Fresh segment. We expect the sale to be completed by the end of June.

The divestiture process for Campbell International continues to progress, and we are evaluating multiple options with strategic and financial buyers. We remain fully committed to this process. Of course, as we consider all of our options, we will continue to remain disciplined to ensure that we achieve the appropriate value for this iconic business.

With that, let me turn it over to Anthony for a detailed discussion of our financial results.

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 this quarter. Overall, we had a good quarter as results exceeded our expectations. We are very pleased with improving trends in our gross margin performance as we benefited from net price realization, continuing productivity improvements and benefits from our cost savings program.

On our cost savings program, we achieved $55 million of savings in the quarter, bringing the year-to-date total to $150 million and the program-to-date total to $605 million. Cost savings, which are benefiting both continuing and discontinued operations, are ahead of our expectations, helping to offset higher transportation and warehousing costs, and are one of the factors contributing to the increase in our EPS guidance.

As previously announced, we have an agreement to divest the Bolthouse Farms business for $510 million, which we expect to close this month. Together with the completed divestitures of Garden Fresh Gourmet and our U.S. refrigerated soup business, we will have completed the divestiture of our Campbell Fresh segment with anticipated proceeds totaling $565 million. Given this progress, we are now reporting the results of the Campbell Fresh segment as a discontinued operation.

Lastly, as we announced this morning, we are updating our 2019 guidance to reflect the classification of Campbell Fresh as a discontinued operation and raising our full year EPS outlook given our third quarter performance and outlook for the fourth quarter. I'll now review our detailed results.

I'll primarily discuss the results for continuing operations. However, as we make the reporting transition, we will provide certain metrics combining continuing and discontinued operations to assist many of you who have modeled the business on that basis. I'll start with continuing operations.

For the third quarter, net sales on an as-reported basis increased 16% to approximately $2.2 billion, reflecting the acquisition of Snyder's-Lance. Organic sales were comparable to the prior year as gains in the Global Biscuits and Snacks segment were offset by a slight decline in Meals and Beverages.

As previously discussed, we adopted new rules for revenue recognition in the first quarter. While overall, the impact of the accounting change was nominal, it was more impactful within Meals and Beverages. As we've previously stated, the full year impact of revenue recognition is not expected to be material.

Adjusted EBIT of $316 million declined 2% as a currency-neutral 8% decline on the base business was mostly offset by the incremental earnings from the Snyder's-Lance acquisition. Adjusted EPS from continuing operations declined by 5% or $0.03 to $0.56 per share, primarily due to adjusted EBIT declines in the base business, partly offset by a lower adjusted tax rate. In the quarter, the change in revenue recognition had a positive impact of $0.01 per share.

For the first 9 months, net sales from continuing operations on an as-reported basis increased 24% to $7.1 billion, benefiting from acquisitions, while organic net sales declined 1% compared to the prior year due primarily to the declines in the Meals and Beverages segment, partly offset by gains in Global Biscuits and Snacks. Adjusted EBIT from continuing operations decreased 1% to $1.134 billion, and adjusted EPS of $2.14 was down 13%.

And now on a total combined basis, which includes amounts recorded in discontinued operations, net sales for the quarter increased 12% to $2.4 billion. Adjusted EBIT of $323 million increased 5%, and adjusted net EPS declined by 20% or $0.14 to $0.56 per share. For the first 9 months, combined net sales increased 21% to $7.8 billion, adjusted EBIT increased 1% to $1.134 billion and adjusted net EPS, which exceeded our expectations of $2.13, was down 19%.

Breaking down our net sales performance from continuing operations for the quarter. Organic net sales were comparable to the prior year as lower volume, primarily in the Meals and Beverages segment, was offset by lower promotional spending. The reduction in promotional spending benefited net sales by 1 point, reflecting reduced spending in Meals and Beverages and a 30 basis point positive impact from the accounting change on revenue recognition.

There was a 1 point negative impact on net sales from currency translation in this quarter. And the addition of Snyder's-Lance to the portfolio added 17 percentage points, bringing our as-reported net sales increase to 16%. We have now wrapped the Snyder's-Lance acquisition as of March 26, and beginning in the fourth quarter, Snyder's-Lance results will be included in our organic results for the full quarter.

As I mentioned, we are pleased with our gross margin progress in the quarter. In continuing operations, while our adjusted gross margin percentage declined 2.1 percentage points in total, that includes a 1.7 point negative mix impact from the Snyder's-Lance acquisition. Excluding the dilutive impact from the acquisition, our adjusted gross margin percentage declined just 40 basis points.

Cost inflation and other factors had a negative impact of 350 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 150 basis points and our cost savings program added an additional 60 basis points of gross margin expansion. Net pricing contributed 110 basis points as we benefited from reduced trade spending, primarily in Meals and Beverages, and list pricing actions across several key categories. Mix was slightly negative, bringing the gross margin percentage for continuing operations to 33.4%.

At the bottom of the chart, we have provided a gross margin bridge for continuing and discontinued operations on a combined basis. Our combined adjusted gross margin, excluding the acquisition impact, expanded by 90 basis points and in aggregate, declined just 40 basis points to 31.6%.

Moving on to other operating items. Adjusted marketing and selling expenses increased 11% in the quarter, reflecting the impact of the Snyder's-Lance acquisition. Excluding the acquisition, marketing and selling expenses decreased, driven primarily by lower marketing overhead and selling expenses, including the benefits from our cost savings initiatives, partly offset by higher incentive compensation.

Adjusted administrative expenses increased 28% to $151 million due primarily to higher incentive compensation and the inclusion of the Snyder's-Lance acquisition. The incentive compensation headwinds were due to lapping below-target accruals in the prior year quarter and improved performance in fiscal 2019.

For additional perspective on our performance, this chart breaks down our adjusted EPS change from continuing operations between our operating performance and below-the-line items. Adjusted EPS decreased $0.03, from $0.59 in the prior year quarter to $0.56 per share in the current quarter. On a currency-neutral basis, adjusted EBIT had no impact on EPS as an 8% EBIT decline on the base business was offset by the addition of Snyder's-Lance to the portfolio.

Adjusted net interest expense increased by $31 million, a $0.07 negative impact to EPS, driven by the increase in the debt level to fund our recent acquisitions and reflecting the impact of higher short-term interest rates. Our adjusted EPS benefited from a lower adjusted effective tax rate, adding $0.05 to EPS. Our adjusted effective tax rate declined 6.5 points to 24.9%, benefiting from a lower U.S. federal rate. And lastly, there was a $0.01 negative impact in EPS from currency translation this quarter, completing the bridge to $0.56 per share.

On this chart, we've also shown the EPS bridge for continuing and discontinued operations combined. On this basis, EPS declined from $0.70 to $0.56 as the additional EBIT gains in C-Fresh were more than offset by a significant negative tax impact, as the prior year within discontinued operations benefited from an unusually low rate. With adjusted EPS of 0 from discontinued operations this quarter, EPS for continuing operations and the combined net EPS are both $0.56.

Now turning to our segment results. In Meals and Beverages, organic sales were comparable to the prior year, reflecting mixed results as gains in Canada were offset by declines in V8 beverages and Prego pasta sauces in the U.S. Segment sales benefited by 1 percentage point from the adoption of new accounting guidance for revenue recognition.

Sales of U.S. soup were comparable to the prior year as gains in broth were offset by declines in condensed and ready-to-serve soups. Segment operating earnings declined 5% to $207 million. The decline was driven primarily by cost inflation and increased administrative expenses, partly offset by supply chain productivity gains, lower promotional spending and the benefit of recent 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 April 28, 2019, the category declined by 2.7%. Our sales in measured channels, including Pacific, declined 5.4%. We had a 57.8% market share for the 52-week period, down 160 basis points from the year ago period. Private label grew share, increasing 130 basis points, primarily reflecting gains in broth, finishing at 16.6%. All other branded players collectively had a share of 25.6%, increasing 30 basis points. Although our share is down for the last 52 weeks, our share trends are improving, as shown on the right side of this chart.

In Global Biscuits and Snacks, sales were $1.154 billion in the quarter including an incremental $318 million from Snyder's-Lance through the anniversary of the acquisition at the end of March. Excluding the benefit from the acquisition and the negative impact from currency translation, organic sales increased 1%. This performance reflects continued growth in Pepperidge Farm, driven by solid consumption gains in fresh bakery products and Goldfish crackers, partly offset by declines in the international biscuits and snacks operating segment. Overall, sales performance of the Snyder's-Lance portfolio was in line with our expectations with solid consumption and market share gains for the first 9 months of fiscal 2019.

Segment operating earnings increased 15% to $139 million, reflecting a 21 point benefit from the acquisition of Snyder's-Lance. Excluding the impacts of the acquisition, segment operating earnings declined as cost inflation and higher administrative expenses were partly offset by supply chain productivity gains.

Cash from operations for the 9 months increased by $124 million to $1.148 billion, reflecting significant improvements in working capital performance, partly offset by lower cash earnings. The cash outlay for capital expenditures was $274 million, $51 million higher than the prior year, reflecting investments to support our cost savings initiatives and the addition of Snyder's-Lance and Pacific Foods to the portfolio. We continue to forecast CapEx of approximately $400 million for fiscal 2019.

We paid dividends totaling $318 million compared to $321 million in 2018, reflecting our current quarterly dividend of $0.35 per share. Net debt of $9.078 billion declined $570 million compared to the prior year as positive cash flow generated by the business have been used to reduce debt. We expect to close the divestiture of Bolthouse Farms this month, and we'll use the proceeds to further reduce our debt level. And as mentioned, the divestiture process of our International business is ongoing.

I wanted to provide an update on our cost savings program and the impact of the divestiture of Campbell Fresh. We achieved $55 million of incremental savings in the quarter, bringing the program-to-date total to $605 million. Campbell Fresh has been a meaningful contributor to our cost savings program, having achieved $70 million to date and, together with future plans for an additional $25 million, comprised $95 million of our previously discussed total program target of $945 million. Adjusting for Campbell Fresh, our continuing operations have achieved $535 million of savings to date, and we expect to deliver annualized savings of $850 million by 2022. Going forward, we will present the program for our continuing operations.

We are updating our guidance to reflect our performance, which has exceeded our expectations, as well as the classification of Campbell Fresh as a discontinued operation. For net sales and off an adjusted 2018 base of $7.735 billion, which excludes C-Fresh, sales are now expected to be in the range of $9.075 billion to $9.125 billion. The expected growth rate on sales is slightly higher than the previous guidance as we've removed the dilutive sales impact of Campbell Fresh.

For adjusted EBIT, our 2018 base increases from $1.408 billion to $1.433 billion as we now exclude the EBIT loss in discontinued operations. From the new base of $1.433 billion, we expect 2019 adjusted EBIT to be in the range of $1.390 billion to $1.410 billion. As was the case in our previous guidance, this reflects anticipated EBIT declines on our base business, mostly offset by acquisitions.

As shown in the last row, off the unchanged base of $2.87, we now expect adjusted net EPS in the range of $2.50 to $2.55, an increase from our previous range of $2.45 to $2.53. The increased EPS guidance reflects improved operating performance as well as lower-than-expected interest costs. The adjusted EPS guidance range of $2.50 to $2.55 also applies to continuing operations as the current year outlook for discontinued operations is nominal.

That completes my review, and now I'll turn it back to Mark.

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

Thanks, Anthony. After nearly 5 months with Campbell, I'm encouraged by the sequential improvements in our performance, energized about the potential of our great people and brands and confident in the plans we are developing to return this company to profitable, sustainable growth over time. We are already taking tangible actions but know that we have more work ahead. Our increased focus and discipline is translating into improved results. We will remain pragmatic and transparent about our plans and our progress against our key priorities. We look forward to sharing more of these plans at next week's Investor Day.

With that, I'll turn the call back over to Ken for Q&A.

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

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

QUESTIONS AND ANSWERS

Operator

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

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

One quick one on organic sales for Anthony, and then just a broader one for you, Mark. Anthony, even excluding the revenue recognition benefit in Meals and Beverages and soup, it still seems that shipments were again ahead of consumption. And I guess thinking ahead to the next quarter, do we expect a reversal of that in fiscal 4Q? Or would you expect soup sales to maybe better correlate with consumption in the quarter?

And then more importantly, Mark, I guess I was hoping to ask you to maybe like take stock, if you will, or I guess no pun intended, but in soup season as a whole this past year versus the year before and really how that informs your thinking on this business going forward. I understand that you're going to give a lot more of the details next week.

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

Yes. Well, thanks, Andrew. Let me and Anthony kind of tag team the first part of the question. And I think it's a little bit varied by category and business. I think relative to inventory position, and as Anthony pointed out in the beginning, the majority of the revenue recognition does kind of land more squarely within Meals and Beverage. So there is a distortion there that's a little bit bigger than the overall 1 point or so that the company experienced.

I do think underpinning that, there's probably about 1 point of inventory as we finish through the month of April and through Easter, where the sequence or the timing was really very close to the end of the quarter. As we look though, the good news is we see May, and I think the latest 4-week information will come out here shortly, we're seeing very strong performance across the Meals and Beverages businesses as we kind of get back into good relationships with several of our retailers who are starting to support the business.

And so I'm feeling pretty good that as we think about the fourth quarter for that business, that it will be more or less in line with consumption. It's possible as we watch inventory fluctuations that there may be a point in there that could be a negative headwind as we go through the quarter. But I think if we can continue to maintain some momentum on the businesses, that will serve us well going through the quarter and then starting 2020 in a strong position. Did I miss anything, Anthony?

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

No. I would just add, overall, when you guys do the math for the implied Q4 sales performance and back out the impact of the acquisitions, you'll see the base business is expected to decline for the full year minus 2% to minus 1%, and that includes a 1 point negative impact due to currency. So the organic performance for the full year minus 1% to flat, and that implies a fourth quarter of minus 1% to plus 1%. So something around neutral is our expectation overall for the fourth quarter.

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

And then on the soup season, I guess what I would say is I call it a healthy education on both some positive and some probably further realization of what it's going to take to really support the business properly going forward. I think that on the good news side of it, we definitely did see improvement in areas where we were deploying support. So if you think about the support on condensed, specifically around cooking, if you think about the support that was in place around the launch of some of the sipping soups around the Well Yes! brand and also some of the returned advertising support to Chunky, all of those businesses moderated their trends, but they didn't swing to the positive or neutral area. And certainly, continuing to lose share is not the objective going forward for those businesses.

So although I think we were able to moderate and see some impact, I do think it continues to speak to the need for a broader, more holistic strategy, as I've talked about before, with perhaps stronger calls to action on differentiation beyond just the pricing and promotion, but I would say we did do a good job of level setting through the season. So I think I would describe it as some encouragement in that there is a response to the support we're doing, but also reinforcement that as we talk about the soup plan next week, that the comprehensive nature of it and the needs to -- the need to do a variety of different things across both product packaging, pricing and support ongoing, along with the complementary funnel of innovation, is going to be, I think, the key to really repositioning or changing the trajectory of the business.

Operator

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

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

So just 2 from me. One, Anthony, I might have missed it, but I just wanted to touch on whether you've updated all the outlook for commodity cost or cost of goods inflation for this year and if there's anything we should think about in context to what's happened with tariffs or potential tariffs with Mexico.

And then Mark, just a broader one from me on snacking. There has been some, I guess, some stories suggesting maybe you're thinking a little bit more about portfolio within the snack business domestically, the potential to maybe divest a brand or 2. So I just wanted to see if there's any sort of comment or update on just your thoughts about the domestic portfolio.

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

I'll start?

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

Yes. Go ahead, Anthony.

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

So in terms of the commodity inflation, as I've said in my comments, the cost inflation was about 4% for the third quarter, which is a little less than the first half and probably should run through about that rate for the fourth quarter, although we're seeing some moderation in several categories.

In terms of tariffs, there's some -- obviously, a lot of activity on that front. The news with respect to Canada is going to help us a little bit. Some of our steel is sourced from Canada, not the majority, the minority. So that'll have a marginal and favorable impact. And the avoidance of any retaliatory tariffs with respect to Canada will avoid a fairly significant cost for us. It's not in our base, but it would have impacted next year, so that goes away. And then the recent discussions around Mexico could have, I would say, a fairly nominal impact on our cost inputs.

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

A little bit of a moving target right now in tariffs, for sure. Bryan, on the question around the domestic snack portfolio, as you would imagine, other than things we've publicly announced, I wouldn't spend a lot of time speculating on M&A activity or talking about that. What I will say is I think the priority for us is clear. We're very focused on the divestitures that we've discussed, and I'm feeling very good about the progress that we've made to successfully sell the Campbell Fresh portfolio. I also remain very committed to the process on the international side of the business, and I think that's our top priority right now.

Of course, as we continue to look forward, we're going to want to make sure that we continue to understand what brands and what the strongest portfolio is for us, as we continue to believe that there is just tremendous potential to compete and to win in snacking with the portfolio that we have. But as always, I want to make sure that we've got the right brands that have the best strategic potential while also recognizing that just continuing to shrink the business or shrinking our way to greatness is not going to be the right strategy either. And I think as we move through these, we haven't talked a lot about M&A strategy, we'll talk about that a little bit next week. But I think I would describe it in sequence. Let's take care of the ones that are on the table now, and then we'll move to continuing to think about how do we strengthen the portfolio after.

Operator

Our next question comes from Ken Goldman from JPMorgan.

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

Mark, in your prepared remarks, you talked about the potential to optimize your network, and it's something you mentioned last quarter as well. I realize you don't want to necessarily get ahead of the Analyst Day, but can you help us understand a little bit what this means from a practical sense? I guess I'm asking if you're considering consolidating some of your DSD routes and how difficult that might be. I'm just trying to get a little bit of help in that direction.

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

Yes. No. Thanks, Ken. No, honestly, when I'm talking about network, I'm talking more about the manufacturing footprint, a little bit on warehousing and logistics as well. And I think it's not an unexpected position to be in after a variety of acquisitions and divestitures over the last several years.

For us, let's now take a step back and go, okay, we're pretty clear now on what we expect this business to look like. We've got a fairly comprehensive strategic plan that's inclusive of at least the early reads of our pipelines for innovation, and we need to cast that now against the footprint that we have from both the manufacturing and the logistics and warehousing network and see if there's not opportunities to better optimize that or match that with the combined businesses that we have today.

And I think as we're doing that, we're seeing an opportunity to improve that. And again, I think it's a good moment in time for us to tackle it. But as far as the snacks integration go, our focus on that has really been in the DSD kind of headquarters and operations area, where there is a significant opportunity that we're now about 1.5 quarters of our way through, and it's going very well. And it helps you on a variety of fronts, costs one, but also in kind of bringing the best of both to bear in how we're directing and utilizing our DSD platform, which we continue to believe and see as a very strong competitive advantage within the world of snacking.

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

Okay. And then maybe that's a good lead into my second question, which is you've talked about synergies in packaging and some of the consolidation of headquarters that's really leading [up for] savings this year so far. There's still a lot left to go in the savings plan. Mark or Anthony, could you walk us through a little bit what some of the big buckets are that you see are left and maybe some of the timing of those, if you can right now? I don't want to, again, get too far ahead of the Analyst Day.

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

Yes. This is something we're going to talk a lot about next week. But certainly, there's a lot to go within the Snyder's-Lance value capture across the areas that Mark talked about and including manufacturing and administrative cost. And then on our base program, we're also working on some network optimization areas that we previously announced. The shutdown of our Toronto manufacturing location, that's coming up right now. And we also have some organizational work that we're doing as well. So we're very confident that we have a detailed plan to get to the $315 million of cost savings still to go, and we'll talk a lot more about that next week.

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

I think, Ken, if you think about the integration in particular, I think the combination of kind of where you would normally see procurements, manufacturing, administrative costs, I think there is also going to be, and as we'll talk about more next week, there is an opportunity as these businesses come together to drive what I'd call some outsized efficiencies in our ability to improve overall operating effectiveness and efficiency of the Snyder's-Lance business as it comes into the Pepperidge Farm and kind of combines and scales in a very different way than we were before. So I think you'll see a little bit more of that depth or detail as we go through next week to give you a bit better understanding of contribution of those building blocks, which I think is one of the bigger questions that will help, I think, people get more comfortable with our ability to deliver on those commitments.

Operator

Our next question comes from David Driscoll from Citi.

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

Guys, just a couple of follow-ups and then -- actually, all 3 might be follow-ups here. The first one, just on your outlook. I'm slightly confused, did you make changes to your expectations for Simple Meals and Global Snacking? On just my first look on this, it looks like C-Fresh is certainly outperforming. But I really want to understand if this critical guidance range is because of more favorable expectations in Simple Meals and Global Snacking.

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

Yes. Well, I think the best way to think about it is to look at the EBIT guidance before and now and think about the midpoint. So the midpoint has gone from $1.390 billion up to $1.4 billion. All of that improvement sits inside of our continuing operations, both Meals and Beverages and Snacks, and that's because our outlook for 2019 for C-Fresh is basically neutral. So that entire improvement is the base business. So that's worth about $0.02 to $0.03 at EPS. The balance of the improvement is coming from the lower-than-anticipated interest expense. So previously, we talked about a range of $375 million to $390 million. We now expect to be around $370 million. So that's another $0.02 to $0.03 of improvement, and those 2 things explain the improvement in our EPS outlook, the midpoint going from $2.49 to $2.53.

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

That's really helpful. And following on the tariff question, you made a reference that you wouldn't have or you think that you won't have a headwind on the products that you sell in Canada. Can you just put a few numbers to that so that I can just be clear on what you were trying to get at numerically? What was the expected headwind from Canadian tariffs? And I think what you're saying is you now think that you will not experience those Canadian tariff headwinds on your products. Just clean that up slightly.

And the last question to you guys is a follow-up on these cost savings. As Ken was saying, this is a really big number. So Mark, I would like to hear from you on just your confidence in the $315 million in future savings. And then do you still expect half of that to be reinvested?

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

Yes. So I'll start. With respect to tariffs, there are a couple of moving parts. What I was referring to earlier on the Canadian tariffs were the tariffs on steel imports from Canada to the U.S. because we source some of our steel that's used in our cans from Canada. That has gone away. That had a slightly positive impact relative to where we've been. Obviously, it doesn't alleviate all the tariff issue we have inside of our steel can cost, but part of it.

The other part is the retaliatory tariffs on soup exports from the U.S. to Canada. If enacted, that would have had approximately about a $20 million negative impact. So that's an avoided cost for us.

And then the third part I was referring to was we source some ingredients and packaging items from Mexico for our U.S. business, not a lot, and that could have a, probably I would say, a $2 million to $4 million potential impact.

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

Okay. And then on the cost savings, I mean, Dave, it'll be easier to do this when we're together next week and be able to kind of give you building blocks as you go. But I do think we have built a very strong bridge relative to where the sources of savings are going to come from. And I also think this is a business that although we certainly would acknowledge that there are a variety of things we've got to improve performance-wise, our ability to deliver the savings historically is a pretty strong track record. And I think we'll kind of try to bring you through what were the sources of the savings so far and then where are the big drill sites as we continue to go forward.

But we've talked about a couple of them today. And certainly, we've talked a bit about the Snyder's-Lance value capture, which is a material component, but also the broader network optimization work that we're doing, also some of the underlining -- underlying organizational elements that we'll talk a bit more about next week. All of these are contributing factors that will build a bridge to it.

As far as how we're going to utilize it, there's no question that, that I know is something that folks would like to understand relative to investment and what's it going to take when we talk about winning in soups and some of the other areas where we believe we can strengthen our investment model. We're going to try to give a lot more clarity to that as well.

But certainly, what I'm pleased about is we've contemplated the savings plan. Certainly, even prior to my arrival, there was a strong understanding and expectation that investment was going to be needed on our businesses. And so it was contemplated in the algorithm that was put together. Of course, pacing is what we'll talk a bit more about next week as well. But I do think there's a meaningful investment that will come from that source of savings, but I believe that also has been contemplated in the financial framework that we've talked about in the past. And so we'll try to give you the building blocks and the sequence to feel better about understanding how those things work together to get to the outcomes that we'll discuss next week.

Operator

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

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

A couple of questions. First, real quick housekeeping item. You're showing EBIT for C-Fresh of a $25 million loss in the prior year base. I think you had reported $43 million. Is it fair to say that, that $18 million delta is sort of the stranded cost, maybe the corporate cost allocation that's folding back into the base business?

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

Yes. That's correct.

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

Okay. And then a question on pricing. The positive price promo in Americas Simple Meals and Beverages was certainly an upside surprise versus our expectation, and I understand there's some revenue recognition noise in there. But even stripping that out, it's better than we would have expected. You mentioned some fresh price increases and trade promo reductions. Can you give us some context around where and what magnitude the price -- list price increases have been implemented? And just more holistically, your broader thought process around the durability and the sustainability of the pricing architecture within Simple Meals and Beverages.

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

Yes. So Jason, as you might imagine on that portfolio, there are some puts and takes, and there are some places where we're making -- where we continue to see the need and our investing in price on certain businesses, while also there are places where we've gone in and been able to rationalize what I would call less effective investment in price. If you kind of think back to 1 year ago in this quarter, we had quite a bit of activity going around retail relationships and some challenges that we had in different places and, in response to that, some investments and some spending promotionally that in hindsight, as you look back now on, it probably didn't have the ROI that we would expect or at the level that we would want it to be.

So there have been some places where we've been able to rationalize what I'd call less efficient spending while continuing to deploy some resources in the places where we need it. As we go forward, I think our approach on this is going to be quite balanced, where we're going to see brands in particular parts of our portfolio where I think we need to continue to be a bit more aggressive to really manage price gaps strategically, while in other places, I think there are opportunities for us perhaps to strengthen the value side of the equation, either through product, marketing or shifting mix through more margin-accretive innovation as a way to help.

Also, price-size architecture as a tool for us going forward, I think, is going to help us. I would not expect pricing, just in the environment we're in and where the state of the business is, to be a substantial contributor to the margin of the business going forward. But I do think, as we saw in this quarter, the idea that it is able to kind of balance and moderate from where it had been a more substantial headwind in the first part of the year, I do think is not an impractical assumption. And again, I think we'll talk a little bit about the business in more details on where some of those price gaps are a bit more, I think, in need of support, while a couple of places where I think we need to do more of the job and more of the heavy lifting on really strengthening our product marketing and support.

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

That's helpful. And the list price increases you enacted, where were they?

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

Yes. I mean we were -- it was a very limited list of list prices, [room]...

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

There are some in soup. There are some in...

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

A little bit in soup. Where we had strong commodity-related cost increases is where we took it, so not a broad-scale list price increase but some selective pricing, which again, I think in this environment, being able to even get it on a selective basis in the portfolio is a good positive statement.

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

In the segment results, there are some list pricing actions we took in Canada as well as in our Foodservice business.

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

Yes.

Operator

Our next question comes from Chris Growe from Stifel.

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

I just had a quick follow-up question to Jason's second question. And again, I'm sure you'll have more to say on this next week at your investor meeting, but just to understand on soup, the business improved sequentially in the quarter even though it's still down on sales.

But can you attribute that to -- I think one of the things you talked about earlier was the response to some of the marketing and promotional programs for the business. Would you attribute it to that? In the meantime, we've seen price gaps expand in condensed. Does that kind of get to where -- areas where you may have to spend a little bit more to try and get price gaps adjusted as you were just discussing in that answer?

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

I think that's right. If you look in the quarter, a couple of things that stand out in soup. First, let's set the context again. First half of the year, and I'll talk to in-market because we've talked a little bit about the noise below consumption that's translating into a little better net sales number in the quarter than the in-market. But we essentially moved from the first half of the year where we were declining in market at about 6%, I think 5.5%, in that range, to just under 3%, around 2.6% in the quarter.

But the big difference is -- or the places that were the most substantial improvement were in a couple of areas. First, on condensed, which had been declining about 6%, that decline reduced to about 2%. And again, I think part of this has been driven by the reorientation to some support selectively around the cooking business and the ability to drive some relevance in occasions beyond just soup eating, but also some of the usage strategy around it. So that's one of the areas that I think is encouraging.

I think the second area is the Well Yes! business and the launch of the sippable format. That has been and continues to be strong evidence, albeit a relatively small scale right now, but the opportunity for that to bring new consumers into the brand and into the aisle is very encouraging. And as you might imagine, I think our ability to scale that up going forward is going to be important.

And then I think you have great momentum from a category standpoint on broth. And I think our ability to use our leadership position and strengthen the differentiation while making sure our price gaps are right, which is probably an area where we've got some work to do, is another encouraging kind of baseline, but with an opportunity to do more as we go forward. And I already talked a little bit about Chunky, which again, I certainly wouldn't call it bright, but decent response to some of the things that we've done.

And so I think those were the areas in the quarter that you can kind of bridge, if you will, what changed from the first half to the third quarter. Now I think we build upon those learnings as we start to fuel what the 2020 soup season will look like and how do we bring to bear all of those learnings, both positively and negatively, to try to get the right plan in place so that we can validate some of this ability to strengthen the trajectory.

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

Okay. That was a helpful discussion. Just a quick follow-up for Anthony. You gave some initial dilution around your -- I should say, initial EPS dilution expected due to divestitures. Has that changed at all at this point? You have obviously what you experienced or will experience on Campbell Fresh. You still have International still to go. I think it's like a $0.03 to $0.05 dilution factor. Is that still in place then today?

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

Yes. I think we thought it'll be -- given all the changes in the reporting here, a little bit confusing now to do that pro forma because C-Fresh is already out. And the accretion from that C-Fresh divestiture, if you look at 2018, it was $0.03 of operations. You can add another $0.04 for the interest benefit, so you get to $0.07. That's a little bit lower in 2019 because the operating performance of C-Fresh is better. So the EBIT within discontinued operations should be fairly nominal, and then you get the interest benefit coming through. We don't want to get too specific on International business at this point given where we are with that process. But as soon we announce something, we can talk certainly about the dilutive impact of that divestiture.

Operator

And in the interest of time, that does conclude our question-and-answer session. Ladies and gentlemen, thank you for participating in today's call. This does conclude the program, and you may now disconnect. Everyone, have a wonderful day.