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PRESENTATION

Operator

Greetings, and welcome to the conference call of Simply Good Foods acquisition of Quest Nutrition. (Operator Instructions) As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Mark Pogharian, VP of Investor Relations. Please go ahead, sir.

Mark Pogharian - *The Simply Good Foods Company - VP of IR, Treasury & Business Development*

Thank you, Hector. Good afternoon, and welcome to The Simply Good Foods conference call to discuss the acquisition of Quest Nutrition. Here with me today are Joe Scalzo, our President and Chief Executive Officer; and Todd Cunfer, Chief Financial Officer.

I would like to remind you that our notice regarding forward-looking statements is included in our press release and presentation. These materials can be found on our website at thesimplygoodfoodscompany.com. During this call, we may -- we will be making comments that are forward-looking. Actual results may differ materially from those expressed or implied due to various risks and uncertainty. Important factors, including those discussed in our press release today and in the Risk Factors, MD&A and other sections of our annual report on Form 10-K and our other SEC filings. In addition, management will make references to The Simply Good Foods, adjusted EBITDA and non-GAAP financial measure, that it believes provide investors with useful information with which to evaluate the company's operating performance. Reconciliations of the company's non-GAAP measures to the most directly comparable GAAP measures are set forth in the quarterly earnings releases available on the company's website.

And with that out of the way, I will now turn the call over to Simply Good Foods' President and CEO, Joe Scalzo.

Joseph E. Scalzo - *The Simply Good Foods Company - CEO, President & Director*

Thanks, Mark. Good afternoon, and thanks for joining us this afternoon. It's an exciting day at our company as we're announcing a strategic, financially compelling transaction that's an important step on our journey to becoming a broader nutritional snacking company. I'll begin the call with an overview of the transaction, provide investment highlights and details of the Quest Nutrition business, and then I'll turn it over to Todd, who will discuss the financials, after which, we'll open the call to your questions.

Our growth vision at Simply Good is to build a branded portfolio company that is a leader in the consumer movement towards healthier, more nutritious snacking and meal replacement. During the past year or so, you've heard me comment a number of times that we evaluated many acquisition assets and that it's been challenging to find the right branded business in this category at a reasonable price. Today, we're announcing the acquisition of Quest Nutritionals (sic) [Quest Nutrition]. It is a perfect fit for our growth vision, a good complement to our Atkins brand, and we believe represents a compelling transaction.

With that, let me provide some detail on Quest Nutrition.

We are acquiring the business from its founders and VMG Partners, a private equity firm. The agreement has been unanimously approved by the Board of Directors of both companies. We're excited about this acquisition because Quest is an attractive, fast-growing nutritional brand with about $345 million in sales. Similar to Atkins, Quest products are high in protein, contain minimal amounts of sugars and are low in carbohydrates. We expect that the combination of our businesses will lead to tremendous incremental growth opportunities.

Quest is a strong consumer brand with a broad product offering. Its growing consumer base is young, affluent, urban and leads an active lifestyle. So while the nutrient profile is very similar to Atkins, its consumer target is highly complementary to Atkin's older, more suburban core user. Quest has built its brand with delicious snacking products and using an impressive social and digital ecosystem. The good news is that from our diligence, we believe the brand is at the right phase of its development to benefit from our company's expertise in growing brand awareness and trial using more broad-reaching media vehicles. And similar to Atkins, Quest household penetration is low, so the runway for growth is significant. Additionally, we believe our relationships in traditional food, mass and drug retailers can help grow product distribution. Likewise, we believe Quest's expertise in e-commerce, small format retail, social digital and different snacking forms can improve our Atkins products, marketing and overall business.

With that as background, let me give you an overview of the Quest Nutrition business. For those of you not familiar with Quest, it's primarily a protein bar business that was founded in 2010 and made its way to retail in 2012. Over the last couple of years, Quest management has done a terrific job transitioning its positioning from a protein bar company to a broader healthy lifestyle snacking brand. Its mission is to provide its consumers with craveable snacks that work for you, not against you. About 70% of the business is in its core protein bar, with the remaining 30% consisting of products, such as protein-rich, low-carb chips, cookies, powders and even frozen pizza. But no matter which product you consume, nutritional profile is the same: rich in protein, low in carbs and low in sugar. Quest best-in-class digital and social marketing program, combined with new products has resonated with consumers. Brand awareness and product velocity across most product forms is strong, and distribution is increasing. Their channel mix is well diversified and the company has strong relationships with blue-chip customers in both measured and non-measured channels. It also has a small, profitable international business. Therefore, we believe Quest is a scalable business with expected net sales in calendar 2019 of about $345 million, an increase of mid- to high teens on a percentage basis versus last year. Calendar 2019 adjusted EBITDA is expected to be $50 million. Given the $20 million of identified synergies and the trajectory of the business, we expect margins to continue to increase as we move forward.

Quest is a strongly developed brand across many consumer segments. For many, it's a simple approach to snacking well. As you note on this slide, there's a nice mix of female and male consumers. And about half of the consumer base are young, under 35, and lead an active lifestyle. Reasons for consumption vary. Consumers, primarily educated with household income greater than $75,000, will tell you they consume Quest products for a variety of reasons, including gaining strength after working out, daily nutrition or for on-the-go meal replacement.

On Slide 7, you can see the nutritional profile of the core Quest Bar. This Quest Bar is 21 grams of protein, 1 gram of sugar, 14 grams of fiber and 4 grams of net carbs. Whether you're looking for a meal replacement, a healthier snack, a permissible treat, Quest nutritional profile fits the bill. And given the portability of most of its products' offerings, they're easy to take with you for that mid-morning or mid-afternoon snack or on-the-go meal replacement. Importantly, Quest continues to grow with solid retail takeaway across all time periods over the last year. And it's not just Quest bars, looking at other forms, particularly Quest protein cookies, chips and frozen pizza, they've essentially flipped the USDA food pyramid to give consumers foods they crave that work for them, not against them. When comparing the level of protein, sugar and net carbs versus a traditional offering, Quest offers a superior nutritional profile without sacrificing fantastic taste. We believe this strategy can be deployed across other select snack food categories to capture other eating occasions.

Many of you are familiar with the Atkins accelerated retail takeaway growth. Quest has experienced similar results and both brands have outpaced the nutritional snacking category. The nearly double-digit category growth across all time periods versus low single digits for center store packaged food seemed to indicate that snacking and meal replacement products with a better nutritional profile continue to gain momentum. Given the megatrends behind the better-for-you snacking movement, we believe that we're still in the early innings of driving consumer awareness, adoption, trial and repeat.

Let me now spend a couple of minutes providing with some investment highlights of the combination of these two great businesses. As we look at the transaction, there's a lot to like. It's a combination of 2 great brands in a fast-growing category of scalable and similar business models. Our business are complementary. We have familiarity with their ingredients, and we expect our shared supply chain and distribution model will deliver on identified synergies. And we both have proven go-to-market strategies that are different but complementary to each other. The Atkins and Quest brands are tightly aligned with consumer megatrends such as more frequent snacking occasions and the desire for on-the-go meal replacement. In addition, there are more than 100 million diabetic and prediabetic adults in the United States, and we're approaching a like number of Americans who are considered obese. There's growing scientific consensus that lower sugar and carbohydrate intake can help reverse these troubling statistics for diabetes and obesity. This evidence is fueling consumer preferences for lower carb and sugar consumption as well as higher protein content, all of which play to our business strengths and create considerable tailwinds to help drive continued profitable growth.

The nutritional snacking category is big. Data from intel states that the nutritional snack market, bar, shakes, treats in the U.S. is greater than $14 billion. Looking at the IRI all-outlet universe, which excludes e-commerce, convenience stores and Costco, nutritional snacking is a $5 billion category and has been growing double-digit compound over the last few years. The category is driven by branded products that sell at premium price points, resulting in attractive margins for manufacturers as well as retailers. Household penetration continues to be low, about 50%. Therefore, we believe there's continued long runway for growth in upside.

Looking at our portfolio, we feel good about the various brand propositions. The acquisition is incremental as we target different consumers. Importantly, brand switching analysis shows there is no meaningful substitution between these 2 brands. As a nutritional snacking leader, we'll leverage the consumer research and data from both companies to continue to bring meaningful innovation to the market that will continue to grow both of these brand franchises. While our nutritional philosophies are similar, the brand promises and consumer targets are very different. Atkins is a low-carb lifestyle brand offering delicious snacking products for adults seeking better health and to manage their weight. Quest is an active sports performance brand that delivers delicious snacks that support people on their personal quests. Quest has a younger, more active consumer that is highly complementary to that of Atkins. As I touched on earlier, this transaction brings together 2 businesses that have complementary capabilities and are expected to generate revenue and cost synergies based on scale of the combination. While this transaction adds important scale and broadens the portfolio, from an integration perspective, nutritious snacking is a business we know very well. I'm confident in our ability to execute in this space and achieve the expected synergies of about $20 million. With both companies operating outsourced supply chains, the synergies are in line with this type of transaction and will be achieved as we integrate the business over the next 3 years. The savings were primarily realized within materials, purchasing, warehousing, distribution and SG&A related to the elimination of duplicative support services.

As we integrate the businesses, we'll look to preserve the best elements of our growth-oriented cultures and implement best practices across the combined organization. Quest should benefit from Simply Good's knowledge and capabilities in measured channels and broad reach media. Conversely, Simply Good will look to leverage Quest's expertise in non-measured channels, e-commerce, social media and R&D and new product forms. The initiatives the Quest management team instituted over the last few years are working. We see an opportunity to increase distribution and drive more consumers to the brand. For example, you'll look to focus the -- we'll look to focus the advertising on a core nutritional philosophy to ensure the right message is conveyed related to key benefits of Quest products. Additionally, we'll look to leverage existing consumers to increase cross purchases within the portfolio and drive new consumers to the brand. We'll also leverage our marketing expertise to determine the right balance between digital and on-air advertising for Quest, while always focused on the highest return on investment. Also, we expect our category management expertise at retail to drive Quest shelf and our presence in measured channels.

Similar to Simply Good Foods, Quest has a highly capable in-house R&D team that is focused on innovation. Given the high loyalty and consumption, we're both focused on providing consumers and retailers with the right level of variety and innovation. We'll look to leverage the knowledge of both organizations to ensure this continues. And as I mentioned earlier, we believe there are expansion and white space opportunity for both brands in select channels that are currently under-penetrated.

With that, I'll turn the call over to Todd to discuss some of the financial aspects of the transaction. Todd?

Todd E. Cunfer - *The Simply Good Foods Company - CFO*

Thanks, Joe, and good afternoon to everyone on the phone and the webcast. I'm excited to be here today and talk about this transaction. Throughout this process, it became very clear to our management team and Board of Directors that Quest is a very compelling brand and business.

Looking at the combined company, net sales are expected to be more than $800 million this year, and we feel very good about delivering top-tier growth going forward. Like Simply Good Foods, Quest revenue is predominantly from North America, but they also have a small international business in similar geographies to our international operation. Quest international business is profitable with margins similar to ours. As Joe stated earlier, this strategic acquisition provides us with scale and a stronger foundation for long-term sustainable growth.

Moving to channel portfolio, Quest generates about half of its U.S. sales in the traditional food, drug and mass channels. Hence, we see an opportunity to apply our extensive FDM knowledge to increase Quest distribution and product offerings through these channels. About 27% of its U.S. sales are generated in the e-commerce, specialty and convenience store channels where Atkins is underdeveloped. We have been impressed with Quest's creative and successful approach in these channels and look forward to learning and leveraging their expertise.

We were attracted to Quest because it's a strong, active nutrition brand with a younger consumer base and believe it is well positioned to benefit from attractive industry tailwinds such as snacking, convenience, meal replacement and health and wellness. Quest retail takeaway has been strong, with growth coming from increased bar velocity as well as new products. Given the recent performance and the trajectory of our businesses, we feel this combination will accelerate our performance on both the top and bottom line. Quest current margins are about 400 basis points lower than ours. However, given the identified $20 million of synergies, there is a path to closing this gap as we look out a few years. Hence, we feel confident that adjusted EBITDA growth will continue to outpace sales growth. And we expect cash flow generation of the combined business to be healthy as we'll benefit from the characteristics underpinned by similar asset-light business models.

As we've outlined today, Quest is a fast-growing nutritional snacking brand with improving margins and solid cash generation that gives us confidence in our long-term algorithm and delivering on our commitments to our shareholders. Under the terms of the agreement, the $1 billion purchase price will be paid in cash. The net purchase price is about $870 million, including the present value of tax benefits. This represents a net purchase price multiple of 12.4x adjusted EBITDA, including synergies. We estimate that $130 million in tax benefits will be about a $15 million reduction to our cash taxes over the next 15 years. We intend to finance the transaction by using approximately $225 million of cash on our balance sheet as well as committed financing from Barclays, Credit Suisse and Goldman Sachs. The company also anticipates issuing equity, and given the expected solid cash flow generation of the combined businesses, anticipates a net debt to adjusted EBITDA multiple of 4x or less by fiscal year-end August 2020.

Lastly, we expect this transaction to be cash accretive to EPS in year 1 and close before the end of calendar year 2019.

Let me now turn it back to Joe for some closing comments.

Joseph E. Scalzo - *The Simply Good Foods Company - CEO, President & Director*

Thanks, Todd. Let me end with a few closing thoughts on this compelling acquisition. Over the last year or so, we've been clear that we're focused on profitable organic growth and strategic M&A as a priority on our path to increasing shareholder value. This deal meets our core objectives of driving profitable growth and increasing shareholder value and marks an important step in the company's history as becoming a broader nutritional snacking company. We'll leverage our core capabilities and product development in manufacturing, marketing and in sales as we integrate and accelerate the Quest business. This combination gives us enhanced presence in nutritional snacking and another lever to accelerate our growth and increase shareholder value. So I want to say thank you to all of you for joining us today. I appreciate the lateness of the hour. Let me turn the call back to the operator as we begin our Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Brian Holland with D.A. Davidson & Co.

Brian Patrick Holland - *D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst*

First question, the composition of the top line growth in recent years, whatever, it looks fairly similar, at least on a track channel basis. And obviously, as you sort of displayed here with the financials, looks pretty similar. What's the composition of that distribution versus velocity? Can you give us any sense?

Joseph E. Scalzo - *The Simply Good Foods Company - CEO, President & Director*

Yes, a little bit of sense. So looking at, call it, the last 6 months, 2 things that we really like about the opportunity here with this business. Their core bar business, protein bar business, somewhere around 70% of their business, growing right now based on just core base velocity growth. So their marketing initiatives, their social digital marketing initiatives, the quality of their products, the strength of their repeat, have been driving strong velocities in the core bar business. And then they've had some success with alternative snacking formats. Chips and -- protein chips and protein cookies have done pretty well, so they introduced a tortilla chip last year and a protein cookie, I believe, last year also. Got those into early distribution. The velocities have been good on both of those, and they've been growing most recently by expanding into white space. So we like the profile of the business, the core protein business growing, our protein bar business growing on velocity, and then some success in alternative formats and some white space given that.

Brian Patrick Holland - *D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst*

That's helpful color. The margin profile, a little bit lower than yours today, but similar as far as being asset-light, I guess, I presume all outsourced on the production side. What drive the lower margin versus where Atkins is today? Is that just relative sort of efficiencies of scales at this point in their life cycle? Or is there something else that makes that margin inherently lower than I'm just -- is escaping me right now.

Joseph E. Scalzo - *The Simply Good Foods Company - CEO, President & Director*

At a really high level, their supply chain is evolving, so they brought in just an outstanding CEO and a strong management team a little over 2 years ago, they were in-house manufactured on their protein bars out of Southern California. He came in, really understood having -- knowing the space really well. They understood that they were high-cost and there were some quality issues with their products. So they have been evolving to an outsourced model, pretty much a mirror of ours. So you're seeing a little bit of a lag in the profitability of the business because of the transition from an in-sourced model where you're buying all your ingredients, somebody -- and you're making them yourself and you're distributing them to somebody else making them for you and buying all the ingredients. The other change they made in their business is they were running a 5 EC distribution network, which they then consolidated smartly down into 1 and just coincidentally happens to be 5 miles from ours in Indiana. So they're running a pretty -- they have evolved into a pretty smart supply chain model, and you're starting to see that flow through to the bottom line in there from a profitability standpoint. We think we can help accelerate that for them as we combine the businesses.

Todd E. Cunfer - *The Simply Good Foods Company - CFO*

Yes. I would say the other thing is a little bit of mix. So both from a product perspective, some of the new items they've launched in the last couple of years that Joe mentioned currently have a little bit lower margin than the core bar portfolio and then their channel mix as well. They have a broad distribution, a lot of e-commerce, a lot of specialty, a lot of c-store and that channel mix versus ours is a little less profitable as well. But as we've pointed out, we've identified significant synergies. We feel very, very confident in the next couple of years those EBITDA margins will be very similar to Atkins.

Brian Patrick Holland - *D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst*

Okay. On that point, Todd or Joe, the frozen business, obviously, you guys sort of parted with that on the legacy Atkins portfolio. You talked about some of the mix components that would impact the margins kind of the basis of the -- my last question. Are you comfortable running with that frozen business? I presume that's all outsourced as well, so nothing really to inherit there. But are you comfortable with what that looks like within the context of this sort of combined portfolio, does that still make sense to you guys?

Joseph E. Scalzo - *The Simply Good Foods Company - CEO, President & Director*

Yes, I would say, early innings, what I do like about their choice in pizza is it's a snack, right? So some people use it as a meal replacement, some people use it as a snack. I like that it's -- we are in the meal bowl business, highly competitive business and off of our core snacking profile, right? So that was one of the reasons that we exited the business. This fits the meal replacement snack vision. So I think -- and they're in early innings on pizza. So they -- it's only in distribution at Target right now. It's doing very well. They manage them. They're using outsourced for manufacturing, so they're managing an outsourced manufacturer. And then obviously, an outsourced distribution network to get it there. I think early innings, we'll take a look at it, see how it does, and let's see where we go from there. So it's really too early to make that call. I like it better than the meal bowl business. A lot better than the meal bowl.

Todd E. Cunfer - *The Simply Good Foods Company - CFO*

Yes, they have plans right now to get those margins up. And what we also love about that pizza business is highly, highly incremental. It's almost 100% incremental to the rest of the portfolio. So yes, the profitability may be lower, but getting better, but it's highly, highly incremental.

Joseph E. Scalzo - *The Simply Good Foods Company - CEO, President & Director*

I would never share this on prior calls, but I eat their pizza. Their pizza is pretty good. And if you're trying to eat pizza on low carb, it's a nice cheat. If you're trying to stay low-carb and get a stack you really want. So give it a try. It's at Target.

Brian Patrick Holland - *D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst*

Well, I wouldn't have admitted this either, but I -- when I can't find an Atkins, I have a Quest bar. But that just must mean I'm still very young. So congratulations. Best of luck, gentlemen.

Operator

Our next question comes from the line of Chris Growe with Stifel.

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

Congratulations on this transaction. It's a really good one for you. I just had 2 questions, if I could. I know, Joe, you mentioned in your remarks about the social media that the company uses currently and having to build awareness. I'm just trying to get a sense of -- you've got an opportunity to see some synergies here. I just want to understand how much do you feel like you need to invest back in this brand to get it to the same level of spending, for example, as Atkins, and to try and really build this in the core channels which you're in today?

Joseph E. Scalzo - *The Simply Good Foods Company - CEO, President & Director*

Yes. First of all, their social digital platform is in-house. So core capability, core strength, and they're pretty great at it. So they built a loyal following of consumers. They kind of grew up in the cross fit craze having launched kind of in 2012, 2013, so they're kind of linked with that I think -- kind of use that as a spring block for a broader consumer line. They've done a terrific job. And they spend decent amount of marketing as a percent of sales. I think the number is around 6% or so. We think they're at the right -- and if you talk to their CEO, he would say that would be the next stage in their evolution, right? Start moving from just that as their platform to a broader -- using broader mass media. So he knew he was going to have to build some capability to do that, we just have that organic already. So I think we'll start down that path because I think he can bring consumers in quicker and drive higher penetration and more buyers. We'll start down that path. We'll see what the return for that kind of thing is. Our experience has been pretty high. And then we'll feed that as the data suggests it should be fed. And I -- ultimately, I aspire to get their marketing, their percent of sales in line with Atkins, and we won't be shy about investing back some of the synergies in order to do that.

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

Sure. Okay. And then just another question around -- we talked a lot about the 39 million consumers that are programmatic or lifestyle that you're attracting -- that you're targeting today. You talked about the sort of the synergies with consumers that Quest attracts and that they're attracted to. My question just is, how do we think about the size of their consumer base and those that are trying to lose weight that kind of 100 million consumers that's out there, and how do you overlap that 39 million. Just curious on that.

Joseph E. Scalzo - *The Simply Good Foods Company - CEO, President & Director*

Yes, the interesting thing is the highest level in that when we did that to incident study, at the top of the chart was people interested in managing their weight and people not interested in managing their weight, right? So about 2/3 of adults interested in weight management, about 1/3 not. Quest placed mostly in that right space, right? So completely incremental to our business, right? So they're consumers that we're not looking at because the brand promise of Atkins really doesn't relate to them, right? I think even within those self-directed low carbers looking to manage weight, there's a component of those consumers that are younger, that are more active, that maybe aren't at the perfect weight, but will probably be more open to Quest than they would be to Atkins, at least right now, where it is in its positioning. So again, I'm pretty comfortable there's a big universe out there that there are complementary target audiences because I think the brand promises are fundamentally different. That -- Quest lives in this helping you achieve what you want, your own personal quest, what you're trying to achieve. It's got an active lifestyle component to it. That's very different than with Atkins. Atkins is an older, more established consumer group, probably more focused on less active, more focused on how they look and feel than a Quest consumer. So we're talking 2 different promises to, frankly, at different target audience. And we're confident we can go after both of those groups with both of these brands.

Operator

Our next question comes from the line of Jason English with Goldman Sachs.

Vivek Srivastava - *Goldman Sachs Group Inc., Research Division - Research Analyst*

This is Vivek Srivastava speaking on behalf of Jason. I had a question on cost synergies. Can you provide more color on the timing of the cost synergies and which bucket among procurement, warehouse, distribution, et cetera, the synergies are more tethered to? And then I have...

Todd E. Cunfer - *The Simply Good Foods Company - CFO*

Sure. So right now, we've actually done a lot of work on this, both internally, and we've had some outside resources to help as well. As we've said, we've identified around $20 million. Most of that is in the SG&A land, where there's duplicative efforts going on between both of our business that -- which have about 115 employees. There are also some substantial supply chain costs as well. So there -- we think there are some ingredients, material savings. We can leverage our strategic sourcing project that we've done in the last year. There's also some freight and warehousing savings. For example, we each have one warehouse in Indiana that are about 2 miles apart, using the same 3PL, the same freight carriers. So we feel there's a great opportunity there. So again, most of it is in SG&A. There's a good portion of it in supply chain as well. And we feel there's probably some more upside as well.

Vivek Srivastava - *Goldman Sachs Group Inc., Research Division - Research Analyst*

And I have one on revenue synergies. Where do you see most of the revenue synergies come from, is it channel expansion, home gardening or maybe geographical expansion, and when do you think they will start flowing in?

Joseph E. Scalzo - *The Simply Good Foods Company - CEO, President & Director*

Yes. So just high philosophical at a high level, I think, if you look at the front end selling organizations. We have strength in food, drug and mass. They have strength in small format and specialty and e-commerce. So there's going to be complementary skills there, and we'll be able to leverage both of that broader skill set against both of the brands. We really like that. Their team has had particular success in new formats. So from an R&D standpoint, I think they have a core strength in new product R&D, which can help. And then our R&D organization, particularly good with different formats of bars. So an opportunity for cross innovation on both of the businesses. So again, I think from a synergy standpoint, lots of opportunity. And then I'd say, in e-commerce, their largest customer is Amazon. They are -- 20% of their business is e-commerce. We're at 5%. So there's a big opportunity. Just looking at where they are in development, they're probably 3 or 4 years ahead of us. So I think they can accelerate the Atkins capabilities in e-commerce and help us capture that some of that opportunity, too.

Todd E. Cunfer - *The Simply Good Foods Company - CFO*

I just want to add, the way we think about this acquisition, this is really a growth play. These are both brands and assets that are growing significantly. Right now, we feel that is really the large opportunity here. Synergies are a nice addition to the model that we've built. But the real upside here is the growth play.

Operator

Our next question comes from the line of Alexia Howard with Bernstein.

Alexia Jane Burland Howard - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

So first of all, tell me what's about the -- how you're thinking about the personnel leadership transition here as you take over this similarly sized brand, maybe a little bit more than what you already have. How many of the existing leaders are you going to keep on at full-time role, and how are you thinking about making sure that, that transition work smoothly? And then I have one follow-up.

Joseph E. Scalzo - *The Simply Good Foods Company - CEO, President & Director*

Great question. We -- their CEO, Dave Ritterbush, just terrific talent. He has been the catalyst for the turnaround in their business for the last 3 years. He will be with us. He is going to be a member of the Board of Directors of our company and a president of Quest, and one of the leaders of the integration of the business over time. So we -- again, very early innings, very early thinking. At the highest level, there's going to be a lot of the support services that are going to be duplicative. We'll deal with that over time. And then it's a matter of recruiting the team at Quest in order to keep capabilities that they're going to bring to the table. And with Dave on board, we feel pretty confident we'll be able to do that.

Alexia Jane Burland Howard - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Great. Then as a follow-up, what percentage of sales are through e-commerce channels that's present at Quest and how quickly they grow and then I'll pass it on.

Todd E. Cunfer - *The Simply Good Foods Company - CFO*

Yes, it's high teens. It's total e-commerce. They're growing, I think, like 40%, 50%. They're doing exceptionally well. We believe that at Amazon, they are the #1 bar business, one bar brand out there. They have a fantastic team, as Joe has pointed out. We have a really, really strong team as well, and I think together, it's going to be lots of upside. Really excited about the merger.

Joseph E. Scalzo - *The Simply Good Foods Company - CEO, President & Director*

That's one. It's a great question. It's one of the areas we can't get wait to get -- put the 2 teams together and figure out what we can learn, right? So I think they're a little ahead of us, Alexia. I think we probably -- got probably a few years ahead of us. I think there's going to be a nice learning curve, and I think we can accelerate Atkins. And they're big, and they continue to grow. So real opportunity in e-commerce. It's one of the business that kind of grew up in the advent of e-commerce, so it was always one of their important channel.

Operator

(Operator Instructions) Our next question comes from the line of Bill Chappell with SunTrust Robinson Humphrey.

William Bates Chappell - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

Quick, I guess, I'd understand that total business that, I guess, of Quest is growing 17% over the past year. Can you kind of break that down of how the bar business has done versus new categories that they have moved into? And also kind of when they moved into some of these new categories, there's some pretty high-growth rates, obviously, for chips and pizza and other things. So I didn't know how long they've been in those markets.

Todd E. Cunfer - *The Simply Good Foods Company - CFO*

Yes. We think when you look at -- because of the great news is when you look at measured channels in the IRI and the Nielsen data that you guys get, their bar business is growing at similar rates as their total business. Now they're in some other channels like specialty, which is when you follow people like GNC and those types of retailers, those kinds of businesses are in decline. But their -- from a shipment standpoint, their businesses -- their bar business is growing around 10% in a measured channel. It's growing well into the teens, if not 20%. And frankly, that was the one concern when we started looking at this business, was this really just a white space distribution play? And we were pleasantly surprised that the biggest piece of the business, the core bar business, was growing very, very well, and it was almost all base velocity. So the rest of the business, as Joe pointed out earlier, there's a lot of white space and opportunities growth in the last 12 to 18 months there. The products are doing well. But the core business is growing through base velocity.

William Bates Chappell - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

So as you -- continuing to the bar business. And just -- sorry to -- it's kind of a 10% grower? Is that the right way to think about it?

Todd E. Cunfer - *The Simply Good Foods Company - CFO*

From a shipment perspective, it's about 10%. Yes.

Joseph E. Scalzo - *The Simply Good Foods Company - CEO, President & Director*

Yes, the one thing that's going to be a little different, as we talk about this business over time is it has a large, not measured channel component to it. So they do a particularly good job in small format, an area that we've just started focus on it last year. So looking just at Nielsen or IRI data is insufficient to understand how the business is doing. The one thing we loved about this business which is unusual in the nutrition snacking, fast growth nutrition snacking, is the core business has been growing based on base velocity growth. So there's no hockey stick in white space growth that we really need to worry about here. So that just tells you their marketing is working. So what they're doing with their social digital is pretty effective. It's driving purchases of their bars. And then they've done a nice job in other snacking formats. It's -- they launched in the last few years a protein cookie, and then just recently, a protein tortilla. Both of those have done in early placement, done really well from a velocity standpoint, which then the playbook there is you, frankly, just start expanding in the white space.

The only other area that I think is -- and as we look at it kind of with our lens, which is kind of a food drug mass lens. The only area that we see in Quest, which is, I think, from a bar standpoint, pretty compelling is that they have a balance of single bars. They're in the same aisle we're in. So they're in the HABA aisle, sometimes across the aisle, sometimes immediately adjacent. They're in the sports performance section. But they're more single bars than they are multipack bar. We see that as a significant opportunity, because if you look at the purchase behavior of those consumers in those channels, they're buying more than 1 or 2 bars. So there's a real trade up. It's been a strategy that we've used at Atkins to drive velocity of purchase in our business. We think there's a real opportunity to get people into more multipacks. And we've done it -- we've gone from singles to 4 and 5 packs to 8 packs. They're still predominantly a single business with a real opportunity to grow, and their management team is smart enough and astute enough to already see it and start moving in that direction.

William Bates Chappell - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

That leads my other question. So is there something inherent on why their -- at least their total margins at, I don't know what their bar margins are. But 400 to 500 basis points lower than yours? Is it because you're -- they're single-serve and more -- or is it because of the ingredients? Or is there something else? Is there a possibility you can get it up to your margins? Or is there something inherent that it would never get that high.

Todd E. Cunfer - *The Simply Good Foods Company - CFO*

No, absolutely. We believe we will, the next few years, get their margins up to our margins. As Joe mentioned earlier, some of it is they've made a dramatic change in their supply chain in the last 2 years. They have not completed that work, and they're in the process of doing that, so there is some gross margin expansion there. There's obviously some gross margin and gross -- and EBITDA margin expansion opportunities from the synergies that we've talked about already. And then product mix, customer mix, the bars are very high-margin business, similar to ours. Some of the other products, frankly, just have slightly lower margins than the bar business. And some of their channel mix as well as you get into e-commerce and specialty channel are slightly below kind of traditional FDMx margins as well. So that kind of is the rationale for why the margins are lower today, but we have high confidence we will have similar margins in the future.

Joseph E. Scalzo - *The Simply Good Foods Company - CEO, President & Director*

Let me say -- by the way, just as an add, their bars are actually more premium priced than Atkins bars are. So higher price points. So there's no reason we can't get our margins pretty close to Atkins' margin over time.

Operator

Ladies and gentlemen, we have reached the end of the question-and-answer session, and I would like to turn the call back to management for closing remarks.

Joseph E. Scalzo - *The Simply Good Foods Company - CEO, President & Director*

Yes. I just want to thank all of you for joining us. As you can tell, we're really excited about the acquisition, and we look forward to seeing those of you on the buy side on September 4 at the Barclays conference. Again, thank you, and good night.

Operator

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.
