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Pinnacle Foods, Inc. (PF)

Q4 2015 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen. And thank you for standing by. Welcome to the Pinnacle Foods Earnings Call for the Fourth Quarter Ended December 27, 2015. This conference is being recorded and there will be a question-and-answer session at the end of the call.

I would now like to introduce your host for today's conference, Pinnacle's Senior Vice President of Investor Relations, Ms. Maria Sceppaguercio. Ms. Sceppaguercio, you may begin.

Maria A. Sceppaguercio

SVP-Investor Relations & Communications

Thank you. Good morning, everyone, and thanks for joining us today. Earlier this morning, we issued our press release for the fourth quarter and full year 2015, which is available on our website in the Investor Center. As indicated in the release, we delivered our third consecutive year of above-algorithm growth, with adjusted diluted EPS of $1.92, $0.01 above the high end of our original guidance range of $1.86 to $1.91.

Here with me to discuss these results as well as our outlook for 2016 are Pinnacle's CEO, Bob Gamgort, and our CFO, Craig Steeneck. As you know, we completed the acquisition of Boulder Brands on January 15, 2016 and have begun the integration of the business onto the Pinnacle platform. Both Bob and Craig will take you through how we're thinking about the business and the significant opportunity we believe it represents now that we've developed operational plans for Boulder for 2016.

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In a few weeks at our upcoming CAGNY Luncheon, we will discuss the business in greater detail and share more insight about the unique opportunity we believe the Boulder Brands acquisition represents for us.

In terms of housekeeping, our release and conference this morning will include our results on an adjusted basis. The adjusted basis excludes acquisition, merger and other restructuring charges and other items affecting comparability. The company believes that the adjusted basis provides investors with additional insight into our business and operating performance trends. While the exclusion of these items is not in accordance with GAAP, we believe that it is the most meaningful comparison and the most appropriate basis for a discussion of our performance. Details of the excluded items are included in the reconciliation tables included in our press release and are discussed in detail in our 10-K, which will be filed later today.

Also reconciled in our release and 10-K is adjusted EBITDA, which is a non-GAAP measure. We define adjusted EBITDA as GAAP net earnings before interest, income taxes and depreciation and amortization, adjusted to exclude items affecting comparability. Other adjusted metrics discussed on the call are calculated using this methodology, unless otherwise noted.

Finally, I'd like to remind you that our discussion this morning may include forward-looking statements which are subject to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements are subject to a number of risks and uncertainties that could cause actual results to differ materially and the company undertakes no obligation to update these statements based upon subsequent events. A detailed discussion of these risks and uncertainties is contained in the company's filings with the SEC.

With that, I'll hand it over to Bob.

Robert James Gamgort
Chief Executive Officer & Director

Thanks, Maria, and thanks to everyone for dialing in. The 2015 results we reported this morning represented our third year end since our IPO and also marked our third straight year delivering results that exceeded our long-term algorithm. This morning I'll touch on some of the highlights of 2015 and then transition to 2016, which we expect to be another good year for us. I'll also discuss the Boulder Brands before turning it over to Craig to take you through the details of the quarter and share some planning assumptions for 2016.

Starting with market share. For the fourth consecutive year, we outpaced the performance of our categories, growing our overall retail consumption by 1.7% in a category composite that was down. As a result, we grew our composite market share by 50 basis points for the year, fueled by the strength of both existing and new products.

We grew or held market share in nine of our 14 categories, including seven of our eight leadership brands. Our consumption growth translated into a 3% increase in North America Retail net sales and consolidated net sales growth of 2.5%. We expanded our adjusted gross margin by approximately 80 basis points for the year. This performance was driven by the ongoing success of our productivity program, higher net realized price and favorable product mix, which collectively offset modest inflation and unfavorable foreign exchange for the year.

We continued to manage our SG&A overhead expenses at 9% of net sales, which remains one of the lowest in our industry. Interest expense, as expected, declined 8% while our adjusted tax rate declined to 36.6%. And while we don't talk a lot about FX, the significant strengthening of the U.S. dollar versus the Canadian dollar over the course of 2015 resulted in an EPS headwind of about $0.03. All of these factors taken together resulted in an adjusted diluted EPS of $1.92 for 2015, which is a 10% increase versus year ago.

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Finally, our cash flow generation remained very strong in 2015, with net cash provided by operating activities totaling about $375 million. Our consistent ability to generate strong cash flow enables us to utilize debt to make acquisitions and pay it down quickly. For example, our net leverage totaled 4.9x after the Wish-Bone acquisition in October of 2013. And we reduced that to 3.8x by December of 2015, which gave us dry powder to acquire Boulder Brands.

From a governance perspective, we added two new independent directors to our board following Blackstone's final sale of its Pinnacle shares and its related departure from the board. On the acquisition front, we acquired Boulder Brands in a transaction that we believe will prove to be both highly strategic and highly synergistic for us. Beyond the operational improvements and efficiency that we can bring to bear, Boulder also offers us access to faster growth categories that are well aligned with evolving consumer preferences. More on that shortly.

Turning to our segments. Our Birds Eye Frozen segment delivered a very strong year, with double-digit net sales growth, fueled by both the base business and the addition of Gardein. Market share was strong across the Frozen portfolio, with consumption up 4.6% and all leadership brands growing market share for the year. The Birds Eye franchise posted double-digit net sales growth for the year, led by both Birds Eye Vegetables and Birds Eye Voila! skillet meals.

This momentum reflected the benefit of a strong core business, with innovation driving incremental share growth. We introduced four new innovation platforms during the year. Our Birds Eye flavorful vegetables, Birds Eye Protein Blend, Birds Eye Disney-themed kids side dishes, and a new Birds Eye Voila! premium-tier skillet meals. New advertising supporting the Birds Eye franchise, including dedicated advertising for the first time behind the Voila! line, helped to fuel the growth.

In terms of market share, Birds Eye Vegetables advanced 1.8 share points on approximately 7% retail consumption growth, while Birds Eye Voila! market share advanced an impressive 6.3 share points on approximately 12% consumption growth. We are confident that the momentum of our Birds Eye franchise will continue into 2016 supported by our new slate of innovation to be introduced later this year.

Gardein, which we acquired in November of 2014, continued to grow net sales at a strong double-digit rate. Retail consumption across both traditional and natural and organic channels was up in excess of 30% and the opportunity to continue to grow this on-trend plant-based protein business remains quite significant. To keep up with demand, we acquired a plant in Hagerstown, Maryland in August 2015 and expect the build-out of the new capacity to be completed by year-end 2016.

Our seafood brands also registered growth for the year, driven by the introduction of Mrs. Paul's and Van de Kamp's flavor crusted fillets. In January 2016, we expanded the flavor crusted platform with the introduction of a new variety for each brand. The Frozen segment Foundation brand portfolio declined in 2015, largely reflecting the anticipated volume elasticity impact of inflation-related pricing actions, particularly behind Hungry-Man.

Last month, we expanded our premium-tier Hungry-Man Selects platform with the introduction of four new on-trend varieties. The adjusted EBIT for the Frozen segment grew approximately 9%, reflecting the impact of the sales growth and productivity partially offset by input cost inflation and higher consumer marketing, principally behind Birds Eye and Gardein.

Turning to our Duncan Hines Grocery segment, net sales for the Duncan Hines Grocery segment declined approximately 3%, including a 1% headwind from FX. This performance reflected growth of our Vlasic and syrups business, more than offset by volume softness on the Duncan Hines brand, given competitive pricing at the low

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end of the category. Wish-Bone was also down for the year in a category that continued to lack innovation and remained highly competitive. We are addressing both of these category challenges with innovation.

In the case of Duncan Hines, our strategy has been to innovate at the premium higher margin end of the category rather than battling strictly on price at the low end. While our overall market share was flat for the year, our share of the premium segment was up 90 basis points while our share at the low end declined by 40 basis points. Importantly, where we've been innovating, namely, in the cake mix segment, we were the only major competitor to gain share for the year, registering a 50 basis point market share increase in 2015.

Our mid-2015 launch of Duncan Hines Perfect Size reflects this strategy in action. Duncan Hines Perfect Size addresses the structural category challenge of the decline in U.S. household size, which makes baking a full-size cake less desirable. Perfect Size is a premium priced and premium margin baking kit that includes both the baking and frosting mixes, as well as a six-inch disposable baking pan. This new platform has been met with great consumer response and enthusiasm. We plan to build on this momentum in 2016, including the launch last month of two new Perfect Size heart-shaped varieties for Valentine's Day.

In the case of Wish-Bone, earlier this month we announced the launch of two new premium-tier platforms, marking the most significant innovation news in the salad dressings category for quite some time. Specifically, we launched Wish-Bone E.V.O.O., a new five-item salad dressing line made from chef-inspired recipes featuring a higher level of extra virgin olive oil than in most mainstream dressings. And Wish-Bone Ristorante Italiano, a four-item line made with artisan cheeses and spices to provide consumers with restaurant-style experiences at home.

These two new items have recently started shipping and are expected to be broadly available in the coming weeks. The retail sell-in went very well and is expected to result in significant incremental shelf space. The new platforms will be supported with consumer marketing and in-store shopper programs to drive awareness and trial.

In terms of market share, all of our grocery leadership brands except Wish-Bone grew or held share for the year. Adjusted EBIT for the Grocery segment was up slightly despite the sales decline, largely reflecting the benefits of productivity, net price realization, lower consumer marketing and Wish-Bone synergies, partially offset by input cost inflation.

To summarize our overall results in 2015, we delivered a strong performance that exceeded our long-term algorithm for the third consecutive year. Our results reflected a solid core business fueled by market share growth, gross margin expansion and a continued lean overhead structure which was accelerated by the benefit of acquisition synergies. Importantly, we also set the stage for another good year in 2016, with expected EPS growth of 10% at the midpoint of our guidance range, including about a $0.05 contribution from the Boulder acquisition.

Let me now turn to Boulder. As you will recall, at the time of the acquisition announcement, we discussed with you our enthusiasm for the business and the significant opportunities we believe existed through the combination with Pinnacle. Through acquisition synergies, organic cost savings identified by the Boulder team and the impact of a much-needed SKU rationalization, our acquisition model targeted growth in Boulder adjusted EBITDA by approximately 50% over two years.

In the six weeks since closing the acquisition, we have transitioned from understanding the business through the diligence process to now working in partnership with the Boulder team. This has increased our confidence in our outlook for the business in 2016 and 2017, and we believe there may be future opportunities to drive incremental long-term growth beyond 2017. This is exactly what happened with the Birds Eye acquisition.

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We continue to expect the benefits from the acquisition to be spread over 2016 and 2017, with the important foundational work to set the business up for the future success beginning in 2016. This includes the SKU rationalization efforts we contemplated in the acquisition model as well as realizing the benefits of scale in the areas such as procurement, manufacturing and logistics. It also includes eliminating duplicative costs and executing against cost savings opportunities identified by the Boulder team before we acquired the business. Clearly, there's a lot of work to do. And I will say that both the Pinnacle and Boulder teams are energized by the opportunity.

A very important aspect of realizing the potential of acquisitions, something that Pinnacle has done well many times is project management and establishing both the structure and the processes that at a minimum will deliver on our acquisition model commitments. Therefore, we've opened our acquisition integration playbook once again and have established the project management office and all the required transition teams for the Boulder integration. This effort is staffed with both Pinnacle and Boulder leaders, benefiting from the combined expertise of both organizations. We look forward to updating you on our progress over time.

And, with that, I'll hand it over to Craig to cover the financials and some of the additional details regarding what you can expect on Boulder reporting for the next couple of quarters.

Craig D. Steeneck

Chief Financial Officer & Executive Vice President

Thanks, Bob. And good morning, everyone. I will start with a focus on our fourth quarter results and then turn to our outlook for 2016. Starting with sales. Consolidated net sales increased 2.4% in the fourth quarter to $722 million, reflecting a 2% benefit from higher net price realization and a 1.6% benefit from approximately six extra weeks of Gardein sales in 2015. Partially offsetting this growth were lower volume mix of 0.8% and unfavorable foreign currency translation of 0.4%.

North American Retail net sales were up 2.7% in the quarter, reflecting higher net price realization of 2.1% and a 1.9% benefit from Gardein partially offset by lower volume mix of 0.8%, and unfavorable foreign currency translation of 0.5%.

Our Birds Eye Frozen segment delivered another very strong quarter, with net sales up 8.3% driven by growth of 4.7% from the base business and a 3.6% benefit from Gardein. The strong base business performance reflected both higher volume mix and higher net price realization and was largely driven by the Birds Eye franchise.

Net sales for our Duncan Hines Grocery segment declined 3.1% due to lower volume mix of 4.2% and unfavorable foreign currency translation of 0.9% which more than offset higher net price realization of 2%. Our Specialty Foods segment net sales increased 0.3% in the quarter, reflecting higher net price realization of 1.1% and lower volume mix of 0.8%.

Now turning to adjusted gross profit. As expected, the relationship between productivity and inflation was again favorable this quarter. Productivity totaled 4.4% while inflation totaled 2.7%, our lowest level of inflation in 2015. This benefit along with higher net price realization, favorable product mix and Wish-Bone synergies was partially offset by unfavorable foreign exchange, driving an 8% increase in adjusted gross profit for the quarter. As a percentage of net sales, gross profit advanced approximately 160 basis points to 31%.

Turning to EBIT. Excluding items affecting comparability, EBIT advanced approximately 7% to $153 million in the quarter, driven by the growth in gross profit partially offset by higher consumer marketing. Also impacting the growth in EBIT was the year-ago benefit of a vacation policy change that totaled $6.5 million, $2.7 million of

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which impacted gross profit, with the $3.8 million balance impacting SG&A. Excluding this benefit in the year-ago period, EBIT advanced 12% in the quarter.

Interest expense for the quarter was essentially even with year ago, although it was down 8% for the year. The full-year decrease was primarily due to the 25 basis point interest rate step-down on our term loan in late 2014 and the benefit of our July 2014 debt pay-down of $200 million. These benefits were partially offset by the impact of the rising interest rate environment on our floating rate debt. Our effective tax rate excluding items affecting comparability declined to 36.6% for both the quarter and the full year due to qualifying in 2015 for the Domestic Production Activities Deduction and foreign tax credit associated with our Canadian operations.

Adjusted net earnings increased 10% in the quarter to $82.5 million, with adjusted diluted EPS advanced 9.4% to $0.70. For the year, adjusted diluted EPS advanced 10% to $1.92 despite an FX headwind of approximately $0.03. Other non-operating impacts, such as our lower effective tax rate in 2015 and comping against the vacation policy benefit in the year-ago period, basically netted out with no overall EPS impact.

Now turning to cash flow. Net cash provided by operating activities in the fourth quarter totaled $162 million compared to $138 million in the year-ago period, reflecting higher earnings partially offset by higher working capital. The increased working capital was due to higher inventories resulting from a strong vegetable harvest in 2015. For the full year, net cash provided by operating activity totaled $373 million. Capital expenditures in the fourth quarter totaled $24 million, bringing total CapEx for the year to $108 million, including $26 million of CapEx related to Wish-Bone and Gardein.

Now turning to liquidity. At year end our total debt was $2.3 billion, which included $1.9 billion in term loans and $350 million in 4.875% senior notes. Cash totaled $181 million, bringing our net debt to $2.1 billion and our net leverage ratio to below 4 times, at 3.8 times.

Following the end of fiscal 2015, we raised $900 million of additional debt to finance the Boulder Brands transaction, which included a $550 million term loan due in 2023 and $350 million of 5.875% senior notes due in 2024. As a result, on a pro forma basis our total debt is $3.2 billion and our net leverage is 4.8 times. We expect to delever quickly consistent with our previous deleveraging post-acquisitions.

Now turning to 2016. Excluding items affecting comparability, we expect diluted EPS for 2016 to be in the range of $2.08 to $2.13, representing growth of 10% at the midpoint. This is above our long-term algorithm, largely driven by the incremental benefit of the Boulder Brands acquisition, estimated at about $0.05.

In terms of some specific modeling assumptions, starting with quarterly cadence. We have significant innovation and related new product introductory expenses planned for the first quarter, primarily behind Wish-Bone, which we expect to weigh on EPS in Q1. For each of the remaining quarters of the year, we expect to post strong year-over-year EPS growth.

We expect Boulder Brands to contribute net sales in the range of $460 million to $480 million, reflecting only 49 weeks that Boulder will be consolidated with Pinnacle from the January 15 acquisition date through Pinnacle's fiscal year-end on December 25. It also reflects the anticipated impact of SKU rationalization efforts that are critical to synergy capture and building the foundation for accelerated growth. Input cost inflation for the year is estimated in the range of 2% to 3%, including Boulder Brands. Second half inflation is expected to be higher than first half.

Productivity for 2016 is estimated in the range of 3.5% to 4% of cost of products sold, including Boulder Brands organic cost savings but excluding synergies. Second half productivity is expected to be higher than the first half.

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Interest expense is estimated to be approximately $140 million. This includes $45 million associated with the Boulder Brands acquisition, including the related 25 basis point interest rate step-up on our existing term loan debt due to leverage increasing above the 4.25 times threshold. This higher rate is expected to take effect beginning in May with the filing of our Q1 financials.

Our effective tax rate is expected to be comparable to or slightly above our 2015 effective tax rate of 36.6% versus our pre-Boulder expectation of a modest decline in 2016. This new outlook is due to higher effective tax rate for the Boulder business and results in a $0.02 to $0.03 EPS headwind for 2016, which has been accounted for in the $0.05 EPS guidance for Boulder for the year.

Weighted average diluted share count is estimated at 118 million shares. FX is expected to be less of a headwind in 2016, with the impact estimated to be approximately $0.01 to $0.02. Depreciation and amortization expense is expected to be in the range of $105 million to $115 million. This includes approximately $15 million to $20 million currently estimated for Boulder while the appraisal is still being finalized.

CapEx is expected to be in the range of $135 million to $145 million, including approximately $30 million to expand capacity for Gardein and approximately $20 million of base CapEx spending for Boulder Brands.

Finally, in terms of reporting and what to expect. We will be reclassifying to cost of products sold about $30 million of warehousing and transportation costs previously classified as SG&A by Boulder Brands. We will work through the integration of the business and we will be reporting Boulder results as a new standalone segment. As we move through the integration over the course of 2016, we may determine that realigning the segments is appropriate. We will keep you posted on this.

We expect to incur one-time costs of approximately $10 million to $15 million in 2016 relating to year one integration efforts for Boulder. These costs will be treated as items affecting comparability and therefore excluded from our adjusted results.

With that, I'll turn the call back to the operator to open it up for your questions.

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QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question is from David Palmer of RBC Capital Markets. Your line is open.

David Palmer
RBC Capital Markets LLC

Q

Thanks. A question on Boulder Brands. I think the Street and our former estimates on Boulder were looking north of $500 million for 2015. And your plan I think is looking at $460 million to $480 million for 2016 for that business. Is there SKU rationalization going on? I can understand some conservatism, but if you could give some color about why there might be a decline in sales, that would be helpful.

Robert James Gamgort
Chief Executive Officer & Director

A

Yeah, Dave. First of all, the way that we're accounting for it in 2016 is there is three less weeks. So that explains about a 7% decline in the business just due to a change in timing. And the way that we look at SKU rationalization is that's largely being offset by the growth of the business. So ex the three weeks of timing difference, it's really a wash between the SKU rat and the growth of the business.

What I would point out is if you take a look at the latest consumption trends on the Boulder business, you'll see that they continue to improve. In total, they've grown about 4%. But if you pull out the Smart Balance business, which we told you guys at the time of the acquisition that we forecasted it on a negative basis on a straight line with no improvement, the business outside of Smart Balance is growing at about 11%.

So there's good, healthy growth in this business and they're in great categories and we're just using that as an opportunity in 2016 to clean up the portfolio to set it up for even faster growth in 2017 and beyond. But the actual decline that you're referencing is primarily a timing difference.

David Palmer
RBC Capital Markets LLC

Q

Great. And just a follow-up on the Smart Balance side. I know your assumption is that that trend will stay the same, a year one assumption. But I would imagine medium term to long term you might feel that stabilization is possible for that business even though spreads is not the best category in the world. You've been losing share. What do think can fix that? What are the big buckets that you'll be targeting to improve that business? Thanks.

Robert James Gamgort
Chief Executive Officer & Director

A

Yeah, now that we've had a chance to work side by side with the Boulder team instead of looking at it through a diligence process, I think we've got a lot of excitement about the portfolio in total and we obviously have clear line of sight to now the innovation pipeline and the marketing ideas.

I think when you take a look at the Smart Balance business, we did the right thing in taking a conservative approach to modeling a continued decline. In reality, those declines are moderating on their own as you take a look at the latest consumption trends. But really when you look at that brand in particular, it behaves much more

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like the Foundation Brands on the Pinnacle side of the business rather than a fast-growing health and wellness brand that's more in line with the way that Boulder team manages it.

So I think we'll just take the playbook from our Foundation business and apply it. And we've got a lot of ideas of how we can at minimum moderate those declines, but ideally get it to stabilization. And that would be all upside to our acquisition model.

David Palmer
RBC Capital Markets LLC

Q

Thank you.

Robert James Gamgort
Chief Executive Officer & Director

A

Okay. Thanks.

Operator: Next question is from Andrew Lazar of Barclays. Your line is open.

Andrew Lazar
Barclays Capital, Inc.

Q

Morning, everybody.

Maria A. Sceppaguercio
SVP-Investor Relations & Communications

A

Good morning, Andrew.

Andrew Lazar
Barclays Capital, Inc.

Q

Two things from me. First, just one on Boulder and then one on Birds Eye. Bob, in your discussions with investors and the team's discussions, I'd be curious to get a sense of where you're seeing maybe the items that are either most misunderstood about this business and where the opportunities are as you see it, or where you're getting the most pushback at this stage.

Robert James Gamgort
Chief Executive Officer & Director

A

Yeah, I think there's a couple things. As we get to tell our story more, there's less and less pushback on it. As I said a number of times, if this were a private business and we had described that we made this acquisition of a $500 million business in the health and wellness segment with opportunities to drive growth in synergies very similar to Gardein just on a smaller scale, I think people would have been very excited by it.

I think what clouded the issue a bit was the performance issues that the company had gone through. And what I'd say is the way that we looked at is we were able to separate the brands and the categories and how great they are and separate those from the way that they had been managed in the past. And there were clearly some mis-steps in the management of it and that was very public, given that it was a public company.

I think that as we've been able to talk about those brands, what our plans are for them and also just remind people of what our track record is of taking businesses that have been underperforming and turn them into good

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businesses, people have gotten more and more confidence. And ironically, our sweet spot in creating value is taking businesses to have a ton of opportunity but have been undermanaged and bringing really strong management to them.

And I think in saying that, there's a core group of players on the Boulder team that we've now had a chance to work with that really get this and really are excited about the growth potential and the fact that we can bring a playbook that allows us to drive good business operations, productivity and then reinvest it back into innovation and marketing. That's really what they want to do as well. And so as we get closer to this business, we get more excited about it. And I think the more that we're able to share those plans with you guys, you'll feel the same way.

Andrew Lazar
Barclays Capital, Inc.

Q

Thanks for that. And then just trying to get a better sense of how to think about growth in 2016 on the Birds Eye side since you'll have the tailwind of Gardein entering the organic base, but then the headwind of lapping a lot of very effective innovation and a great run on the Frozen piece this past year. So I'm just trying to get a sense of how those things lay out and what we can think about and how to model Birds Eye going forward?

Robert James Gamgort
Chief Executive Officer & Director

A

Yeah, what's great about the Birds Eye business is that if you pull apart the share progress, and it was tremendous share progress that we had in 2015, we grew share on the base business when you pull out the innovation and we added innovation on top of that. That's a rare situation where you launch three platforms on the Veg business and an additional platform on the Voila! business, drive tremendous growth in that business and yet you're still getting growth on the base business.

So I'd take a look at it and say it shows you that this is an expandable category that's driven by the marketing that we're adding. And we continued to increase our investment behind advertising and consumer marketing. And the platforms that we've established on both Veg and Voila! are really just getting started. They drove a lot of growth in 2015, but in terms of household penetration and trial and awareness, they're still on the beginning part of that curve. So we've got a lot to drive in 2016.

And on top of it, we've got new innovation coming that we haven't talked about yet because it's going to come in beyond the first quarter, and we look forward to sharing that with you. But there's also more innovation coming in 2016 that will continue to build on that. So we're not at all concerned about lapping strong results. In fact, we're very bullish on that because we think we've got a lot of upside on top of that.

Andrew Lazar
Barclays Capital, Inc.

Q

Thank you. And see you in a couple of weeks at your lunch.

Robert James Gamgort
Chief Executive Officer & Director

A

Yeah, great.

Operator: Thank you. Our next question is from Matthew Grainger of Morgan Stanley. Your line is open.

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Matthew C. Grainger
Morgan Stanley & Co. LLC

Q

Hi. Good morning, everyone.

Robert James Gamgort
Chief Executive Officer & Director

A

Good morning.

Matthew C. Grainger
Morgan Stanley & Co. LLC

Q

Bob, I guess to follow up on Andrew's question, I wanted to get your thoughts on pricing power in the Birds Eye business. Promotion is obviously coming down, baseline sales look good, your realized pricing seems like it accelerated in this quarter on a two-year stack. So I guess is that indicative of the broader promotional environment and the level of rationality in the vegetable category, or is all this marketing leading to actual sustainable pricing power? And do you think that the pricing acceleration in Q4 is sustainable into next year?

Robert James Gamgort
Chief Executive Officer & Director

A

Yeah, I certainly do because if you take a look at the total Pinnacle portfolio first, and then I'll drill into Birds Eye, if you look at the total Pinnacle portfolio in 2015, our average price per unit was up about 3.5%. And it was only up about 1% in the categories in which we operate. So we've been able to get pricing in excess of our categories for multiple years now. The same numbers on Frozen Vegetable are about, call it, 1.5% price growth on Birds Eye and a negative pricing for the category ex-Pinnacle or ex-Birds Eye in there. So we clearly are getting pricing power versus our categories versus our competition.

But I think what's most important to point out is the way that we're getting effectively that pricing. A lot of that is driven by a mix and is driven by innovation that we're able to launch at higher price points that commands a premium price point, but yet offer a good value to our consumers because they are getting more benefit out of that. And obviously when you have innovation that is very unique in the category, you don't have to promote it as heavily to get the trial and the repeat on it as you would if you were in head-to-head competition.

And that's really the playbook that we're using across all of our categories, differentiated products, higher price point with still good value to the consumers, separate ourselves from the competition and it insulates us from having to just compete on price. And I would also tell you that the investment that we're making in advertising to support that brand is also giving us more consumer loyalty. And as you point out, our baseline trends are very strong.

Matthew C. Grainger
Morgan Stanley & Co. LLC

Q

Okay. Thanks, Bob. And I guess just in terms of your expectations for broader industry growth, we're seeing some widespread benefits now from a few key categories improving and lower trade spend across the industry. As that translates into your results, you've got strong results in Birds Eye, soft results in Duncan this year. Once you normalize those a bit and include Gardein in the base business, should we expect a material change in the level of growth in North American Retail?

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Robert James Gamgort
Chief Executive Officer & Director

A

We've been very successful in talking about growing in line with our categories and building a business model that can take whatever level of growth our categories give us and translate that into great shareholder return. As you've seen in the past now four years, we've actually outpaced the growth of our categories by gaining share. And I think the combination of that plus now accessing faster growth categories in the form of Gardein and the Boulder Brands as well as the category growth that we're driving in some of our other more traditional categories are going to put us in a position where I think over time we can talk about higher levels of growth, and that's something that we'll update you on the future.

But that's part of the strategy, if you look what we've done on a macro basis is we've got a business model that can take a very low level of growth and translate that into a superior shareholder return. There is no reason why we can't access better growth categories and still apply that model, which is high productivity, lean overhead structure, good innovation, and continue to get the benefits of that model with more upside on the top line.

One other comment just on baking I would point out, we talked a lot about baking and I imagine I'll get some questions on that. And it clearly is a problem category, a challenged category. I would point out two things. You have to dig below the surface. I think one of them is, as we continue to grow and we evolve and we expand our business and make acquisitions in more health and wellness-oriented categories, baking is about 7% of Pinnacle today. So it was much more significant historically. It's much less significant in terms of the total portfolio today.

The other part, too, is back to the playbook that I've referenced a couple of times, our intentional strategy there is not to just slug it out at the low end of the category. And we've actually ceded some share at the low end of the category. But when you take a look at our performance in 2015, the category was down, we were flat on share. But when you look at the premium segment, we were up almost a full share point in the premium segment and our absolute consumption on premium, which is Decadent and Perfect Size, our absolute consumption was up 15% in baking in 2015. So the total baking numbers match that story, but we've tapped into a really good pocket not only of profitability, but growth within baking, which is the premium segment.

Matthew C. Grainger
Morgan Stanley & Co. LLC

Q

Okay, great. Thanks again, Bob.

Robert James Gamgort
Chief Executive Officer & Director

A

All right. Thank you.

Operator: Our next question is from Jason English of Goldman Sachs. Your line is open.

Jason English
Goldman Sachs & Co.

Q

Hey. Good morning, folks.

Robert James Gamgort
Chief Executive Officer & Director

A

Good morning.

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Jason English
Goldman Sachs & Co.

Q

A couple of quick questions. First, on the inflation outlook, 2% to 3%. Is that just sort of an evergreen planning assumption or are you seeing real upward moves in some input cost that cause you to expect deflation to accelerate this year?

Craig D. Steeneck
Chief Financial Officer & Executive Vice President

A

Yeah, Jason. Good morning. So as we've always talked about, we have a very diversified input cost basket. And as we look across our basket, you've got certain items that have got high inflation, call it, close to 10%. And that's in corn sweeteners, sugar, cocoa. Eggs are also a highly inflationary category.

And then you've got deflation to a lesser extent in proteins and some of the tradable greens and then you've got things that are in the middle level of inflation, like packaging and those type things. So we've done a detailed review obviously of what we think 2016 is going to be. But 2% to 3% we feel comfortable about and we've got obviously some very good protection for hedging activities and stabilized pricings through the first half of the year.

And outside of the core commodities, the core input cost basket, we got manufacturing conversion costs. That's probably at about 3%. And logistics still tends to be a bit of a headwind, even with lower fuel cost. That's probably around about 3%, too. So when you average it out and you look across our business, 2% to 3% is what it nets out to. We feel comfortable with it, highly confident it's not going to be materially above that. Also feel highly confident it's not going to be materially below that.

Robert James Gamgort
Chief Executive Officer & Director

A

Yeah, and also one thing to build on that, Jason, is that if you take a look at the guidance of 2% to 3%, that's actually lower than the inflation we incurred in 2015. So we update it year-to-year, as Craig points out. And so we see the inflation outlook in 2016 to be slightly better than what we experienced in 2015.

Jason English
Goldman Sachs & Co.

Q

Got it. That's really helpful. And one more question and I'll pass it on. I sure we'll hear more at the CAGNY Lunch. I'm looking forward to that. But now that you've sat with Boulder a bit more, can you talk about some of the opportunities to bring things in-house, whether it be supply chain, sales force, or probably a combination of both?

Robert James Gamgort
Chief Executive Officer & Director

A

Sure. So we're in the middle of the integration and we're working through the disciplined process that we put in place in previous acquisitions. And as I said in the prepared remarks, it's staffed by people on both the Boulder side as well as the legacy Pinnacle side. And so everybody's really in the process of creating a lot of this. So let me tell you what we know right now and then what we're still working on.

What we know right now is there's a significant cost benefit that can be achieved. At the time of the acquisition, we talked about a 50% increase in EBITDA over the first two years and it's a combination of traditional synergies, organic cost savings and then some reinvestment from things like the SKU rationalization that we talked about. We have tremendous confidence in that. We're able to now get closer and closer and put pencil to paper and really

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mark out how we're going to get that done. And so our confidence on that is higher now obviously than it would have been when we were looking at from a bit of a distance.

In terms of how we're going to get those synergies and those cost savings, there's an opportunity to eliminate some of the duplicative costs, that's the easy stuff to do when taking a public company and putting it under another public company. But I think the real opportunities are in the supply chain, whether it's taking efficiencies in the procurement side or the logistics and warehousing side. About half of the portfolios is Frozen I would remind you, so that's where we're able to get some real synergy.

And then we're taking a look at the entire supply chain. And what's unique about Boulder versus the Pinnacle business is about 40% of that business was co-manufactured. And so you can imagine that we're taking a look at a lot of opportunities, whether it's to harmonize the co-manufacturing network and/or to repatriate some of that volume into the Pinnacle network.

All of those combined are really rich sources of synergies and cost savings that we're excited to get our arms around. I think equally as important is we see tremendous opportunity for growth. About 20% of the Boulder portfolio was sold in natural and organic channels and that's consistent with the Gardein business as well. And so we see an opportunity to build sales expertise in that.

But on the flipside of it, we see opportunities to greatly expand distribution and merchandising on both the Gardein and the Boulder businesses in traditional customers where the legacy Pinnacle sales organization has been really strong. And that's a piece that we're designing right now is how do we interface between those organizations to get maximum reach.

But I think when this is all said and done, we'll be highly unique in the food industry and having a sales organization that can really cover all channels effectively. And that's something we haven't really built into the model yet.

Jason English
Goldman Sachs & Co.

Q

Got it. Great color. Thank you very much. I'll pass on.

Robert James Gamgort
Chief Executive Officer & Director

A

Okay. Thanks.

Operator: Next question is from Farha Aslam of Stephens. Your line is open.

Farha Aslam
Stephens, Inc.

Q

Hi. Good morning.

Robert James Gamgort
Chief Executive Officer & Director

A

Good morning.

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Maria A. Sceppaguercio
SVP-Investor Relations & Communications

A

Good morning, Farha.

Farha Aslam
Stephens, Inc.

Q

Question about Birds Eye. You have a new owner that's in a competitive brand. Have you seen any changes in the category or shelf availability for frozen vegetables?

Robert James Gamgort
Chief Executive Officer & Director

A

No, we haven't seen any changes yet. And the point to emphasize from the way we look at the world is we see this as a very expandable category, as we said a number of times. The sad truth is that the Americans don't eat enough vegetables. An average American eats only one serving a day. So we've always viewed this as an expandable category all the way back to the time that we acquired the business in 2009.

So when we develop our innovation pipeline and we think about our advertising and when we think about our promotion strategy and category management with our customers, we really talk about how do we just bring more people into the category versus targeting a specific competitor.

And so, again, if you take a look at the past year, we gained almost 2 share points. We drove more than 100% of growth in the category and we brought new users and younger users into the category through our innovation. And that's exactly what we'll keep doing. And, again, we do that without really paying much attention to any specific competitors and that's the way we're going to continue to operate.

Farha Aslam
Stephens, Inc.

Q

And then just a follow-up on your cost savings. You had targeted 3.5% to 4%, and that included acquisitions. But what's core and what's in the acquired business?

Craig D. Steeneck
Chief Financial Officer & Executive Vice President

A

Sure, Farha. The base productivity assumptions, our overall guidance over the last couple of years, that 3% to 4% is organic cost savings. That excludes any synergies, say, from Wish-Bone in the past and go-forward on Boulder.

We delivered 3.8% in 2015. And, again, that was just organic core NVP productivity in our business without synergies. Our guidance for next year for 2016 is at 3.5% to 4%, so a higher level of confidence. And we get some organic Boulder cost savings in addition to the base Pinnacle business, but that is exclusive of any acquisition synergies.

Farha Aslam
Stephens, Inc.

Q

So that includes Wish-Bone and Gardein now in the core.

Robert James Gamgort
Chief Executive Officer & Director

A

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Yes, correct.

Farha Aslam
Stephens, Inc.

Q

Okay. Perfect. Thank you very much.

Robert James Gamgort
Chief Executive Officer & Director

A

Yep.

Operator: Next question is from Robert Moskow of Credit Suisse. Your line is open.

Robert Moskow
Credit Suisse Securities (USA) LLC (Broker)

Q

Hi. Thank you. Hey, Bob, I saw a study on gluten-free foods and it said that about 23% of the users use it for celiac reasons. And that's growing. But the implication there is that another 77% are using it for dietary or for health reasons. And I think you've said before that part of your expectation is that those people might decline over time as the gluten-free diet fad fades. And I guess I wanted to know, that seems like the bigger chunk of the users. And have you thought through how fast the celiac users have to increase to offset what – it seems like you have more to lose from the 77% than you might have to gain from the 23%. And then I just had a follow-up about channels for a second.

Robert James Gamgort
Chief Executive Officer & Director

A

Sure. We're getting up to speed on the category as quickly as we possibly can. And obviously we did a tremendous amount of work on it before we made this acquisition. Let me just share a couple thoughts on gluten-free. And as I said a number of times, my opinion on gluten-free has evolved significantly over the past four years or five years. I've been in the food industry for 30 years. And you have to be thoughtful about separating fads from long-term trends. And my opinion has evolved over the past four years or five years to say this is not a fad, this is a long-term trend.

A couple of data points on that, and I'm happy to drill deeper if you like. It's a $12 billion category right now. We have modeled growth to moderate. Again, we're always very conservative on that, but in reality it grew by another 30% in 2015. When we look at the consumer data, about one in three consumers are saying that they're trying to eat gluten-free or cut back on the amount of gluten in their diet. And we also know that consumers who have this orientation specifically prefer dedicated gluten-free brands over variants of gluten-free from mainstream brands. And that's what we really get excited about because between Udi's and Glutino, it's the top number one and number two dedicated gluten-free brands in the category. So a really good place to be.

When you think about the growth rates, as I said, category grown about 30% in total in 2015. It is driven by a combination of people who have been diagnosed with celiac disease, people who have found themselves to be gluten intolerant, whether that's diagnosed by a doctor or recommended by a doctor or self-diagnosed, but they actually feel better when they eat differently. And that's important. And then you've got people who are trying it. The number of people who are being diagnosed with gluten-free is going up every day. And there's all kinds of estimates that say only 20% or 30% of people who are celiac have been diagnosed yet. So that number is going to continue to grow. Whatever that number actually is, that's going to continue to grow. I think the same thing with people who are gluten intolerant as well.

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And so I think that as you talk about the math between people who need to grow in that sense versus those that are going to drop out on the other end, it's hard to actually do that math because what's missing is people who are gluten intolerant or celiac, the quantity of their purchases is significantly higher.

Robert Moskow
Credit Suisse Securities (USA) LLC (Broker) **Q**

Yeah.

Robert James Gamgort
Chief Executive Officer & Director **A**

And so that's the piece that's hard to get in all of that. So there's a lot of data around this. This category is not going to slow down in the near future. And there is a lot of evidence that people who are celiacs or gluten intolerant, they can't eat a different way. There's no choice for them to eat in a different way. So that's a very sticky consumer segment, that's unlike most of which we operate in the food industry.

Robert Moskow
Credit Suisse Securities (USA) LLC (Broker) **Q**

And, Bob, did you say that gluten-free category sales are up 30% in 2015?

Robert James Gamgort
Chief Executive Officer & Director **A**

Yeah, and there's a number of different sources of how you get there. That one happens to come from Mintel. But that's a pretty all-encompassing view of all categories. We're working with IRI and, as we go forward, we'll provide more clarity for you guys of how we define the gluten-free segments in which we compete and also how we think about the gluten-free industry, very similar to what we've done with all of our other categories.

But we look at multiple data sources, all of the numbers are in the low to mid-double digit growth rate. And if you just take a look at the pure consumption in Udi's and Glutino, which had been in well established categories, if you look at the latest 12 weeks, Udi's has grown about 15% and Glutino has grown at about 5%. And that's a rebound off of a decline last year. There's a lot of a good tailwind behind not only the category, but these brands and also premium price, which is another thing that I think people overlook.

Robert Moskow
Credit Suisse Securities (USA) LLC (Broker) **Q**

Okay. And my follow-up was I think you gave us some Nielsen data or IRI saying that ex-Smart Balance the business is up 11%.

Robert James Gamgort
Chief Executive Officer & Director **A**

Correct.

Robert Moskow
Credit Suisse Securities (USA) LLC (Broker) **Q**

But then you also said that I think 40% of your sales were in natural and organic channels, probably unmeasured. Is that business growing faster than that 11% or in line or below?

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Robert James Gamgort
Chief Executive Officer & Director
A

Yeah, so first of all, it's 20% of the Boulder portfolio that was in natural and organic channels. And the number that I gave you is a composite number that represents Nielsen's spin and also some direct customer data that we can get our hands on. So it's a pretty accurate reflection of total consumption of the Boulder portfolio.

Robert Moskow
Credit Suisse Securities (USA) LLC (Broker)
Q

Great. Thank you very much.

Robert James Gamgort
Chief Executive Officer & Director
A

Sure.

Operator: Our next question is from Chris Growe of Stifel. Your line is open.

Christopher Growe
Stifel, Nicolaus & Co., Inc.
Q

Hi. Good morning.

Robert James Gamgort
Chief Executive Officer & Director
A

Good morning.

Christopher Growe
Stifel, Nicolaus & Co., Inc.
Q

Hi. Just two questions if I could as well, please. Quick ones here. The first one just in relation to the Duncan Hines division, you had obviously some volume pressures coming through from the baking category in particular, but you had strong pricing coming through, probably in part from lower promotional spending if I heard correctly. But is there a better management of pricing and maybe to allow for some volume decline to achieve better profitability just broadly across the Duncan division? I know that baking mix is its own animal there. But can you talk about that in terms of the overall division?

Robert James Gamgort
Chief Executive Officer & Director
A

Sure. If you think about the other division which is we call it Duncan Hines division in our naming construct, but there are a lot of different businesses in there. We had a very good year on Vlasic and on syrups, both very profitable businesses. We had a good year on our Armour canned meat business which is embedded in there as well, which is a Foundation brand. When you take a look at the baking segment, absolutely there was top line pressure on the baking segment because of last year in a declining category.

But, again, let me point out a couple of data points about how we think about managing that business for quality growth and profitability. The category pricing was down 3.6% in 2015. The Duncan Hines pricing was plus 3.1%. And you you're looking at almost a 7 point spread in pricing between the category and Duncan Hines.

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And a lot of that is driven by the fact that we're not going to just compete in a super aggressive way and lose money at the low end of the business, which means we're going to give some share up from time to time, but we're okay with it. But our big focus is on driving our premium side of our portfolio. And as I said before, our premium portfolio had 15% consumption growth in 2015. So when you look at the management of that business from a profit standpoint, I think we're doing all the right things to make sure that we are competing effectively in the marketplace, but at the same time really managing that business for profitability.

And then the other business that was a bit challenged in 2015 was clearly Wish-Bone. The category we challenged and we lost a little bit of share in there. As we've said since the time of the acquisition, we've been transitioning over from manufacturing by Unilever to manufacturing by us. And we've really been competing with the existing products that we acquired.

Now in 2016 we get our chance to launch innovation and hopefully you got a chance to see it. But it's a very different proposition from the consumer. It plays to the premium indulgence on the Ristorante Italiano side, it plays to the clean ingredient and extra virgin olive oil on the E.V.O.O. side. Those two are premium price businesses. And I think we're going to manage that segment in a very similar way, where we're going to be worried less about what is our total consumption across the business and more focused on are we growing the right segments that also drive profitability.

Christopher Growe
Stifel, Nicolaus & Co., Inc.

Q

Okay. That's very helpful. Thank you for that. And then just a quick one on Boulder synergies in 2016. Have you said how much we should expect in terms of synergies for the year and how it contributes to profitability? We know the accretion level overall, we're just trying to get a sense of the synergies.

Craig D. Steeneck
Chief Financial Officer & Executive Vice President

A

Right. Yeah, the overall synergy estimate that we said is to get $30 million of synergies by 2017. So as Bob mentioned before, we have our project management offices together, we're working with teams to be able to cumulate it. The synergies will certainly ramp up quarter-by-quarter through the year. And we're well on our way for identifying that and then finding its way into the P&L. So you could estimate somewhere around half of that, maybe a little bit less, coming in in this year, with the balance coming in 2017.

Christopher Growe
Stifel, Nicolaus & Co., Inc.

Q

Okay. Thanks so much for your time.

Craig D. Steeneck
Chief Financial Officer & Executive Vice President

A

You're welcome, Chris.

Operator: Thank you. Our next question is from Jonathan Feeney of Athlos Research. Your line is open.

Jonathan P. Feeney
Athlos Research

Q

Good morning. You mentioned back in November that this particular deal wouldn't change your desire to do something bigger on the equity side like an RMT for a bigger frozen business. You mentioned that specifically back

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in November. And I wonder if anything about your excitement about maybe some of these faster growth businesses or a change in the financing environment has changed that?

Robert James Gamgort
Chief Executive Officer & Director

A

Look, we've been participating in the M&A process and deal flow prior to our IPO and since our IPO. And as we've said a number of times, we look at the small acquisitions all the way up to the large transformational activity. And our appetite and our desire for something large and transformational hasn't declined one bit in the three years since we've been public.

Fortunately, we haven't put all the eggs in that basket and have been able to make three, not only strategic acquisitions, but acquisitions that have allowed us to deliver our TSR above the algorithm that we communicated at the time of the IPO. So we're really proud about that and we're really happy with where that's going.

We have capacity to do a transformational deal, if you talk about an RMT or some sort of merger. None of this changes our financial capacity to do that, nor does it change our desire. If you take a look at our ability to do a cash and debt straight-up acquisition, and we have a self-imposed cap of about 5.5 times leverage. We could still do a $1 billion deal today. And if you look at the strong cash flow that we have, we could probably do a $2 billion deal by the end of the year. So even in a straight-up cash-debt acquisition, we still have a tremendous amount of capacity to do another Boulder-size acquisition right now and something larger than that by year-end.

So a lot of that is consistent with what we talked about. So just to go back specifically to your question, our appetite hasn't changed one bit and our ability to do it hasn't changed one bit since the inclusion of Boulder to our portfolio, which is the same thing we said during Wish-Bone as well as Gardein.

The one thing I would add to your point is the acquisition of Boulder and our desire to keep it separate as a unit does open up the door to consider some acquisitions that in the past we would have considered to be too small or slightly off the track of what we normally looked at because we now have the ability and the home for them that we can get maximum value.

And I would also tell you that since we've made first the Gardein acquisition and now the Boulder acquisition, the number of inbound conversations that we've had from people who operate in that space has increased. Because in the past they would have said we don't see Pinnacle as being a great fit for these kind of businesses. When they see what we've done with Gardein and now hear our plans for Boulder and, look, the buzz gets out there from the Boulder team and talking about the community out there. There's a lot of excitement of people approaching us now saying, would you consider putting us as part of that business unit and approaching things differently. And so it's a nice position to be in.

Craig D. Steeneck
Chief Financial Officer & Executive Vice President

A

And, Jonathan, just in terms of leverage. We closed 2015 at 3.8 times, so below 4 times for the first time in Pinnacle's history since the IPO. Even with the $900 million of new debt we've taken on from Boulder, it's 4.8 times on a pro forma basis. And when we look out to our model for 2016/2017, we think we're going to get close to half a turn of delevering per year. So we'll be back below 4 times some time in 2017, which, to Bob's point, would allow us to be able to reacquire and keep the leverage consistently below the 5.5 times we've talked about.

Jonathan P. Feeney
Athlos Research

Q

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Understood. Thanks very much.

Craig D. Steeneck
Chief Financial Officer & Executive Vice President

A

Okay. Thanks.

Operator: Thank you. Our next question is from Eric Katzman of Deutsche Bank. Your line is open.

Eric R. Katzman
Deutsche Bank Securities, Inc.

Q

Hi. Good morning, everybody.

Robert James Gamgort
Chief Executive Officer & Director

A

Good morning.

Eric R. Katzman
Deutsche Bank Securities, Inc.

Q

I'll throw a congratulations.

Robert James Gamgort
Chief Executive Officer & Director

A

Thank you.

Eric R. Katzman
Deutsche Bank Securities, Inc.

Q

Good results in a tough year. I guess most of my questions have been answered, so I'll just focus in on, Craig, you gave a lot of details on 2016 and you also said that the first quarter is likely to be lower because of the Wish-Bone spending, et cetera.

Can you direct us a little bit more in terms of I guess if the comp is $0.39 ex items a year ago, can you just talk a little bit more about that? And I'll pass it on. Thanks.

Craig D. Steeneck
Chief Financial Officer & Executive Vice President

A

What I'd say, Eric, as we've said, we think the first quarter we'll be stretched and then, the next three quarters will show nice growth versus year ago. And then the biggest piece is the slotting the new introductory costs and related consumer marketing behind our Q1 innovation. And as Bob said from the script, we're launching nine SKUs on Wish-Bone between E.V.O.O. and Ristorante. So that will put a significant amount of pressure on the P&L in the first quarter. And then once that's behind us, you'll see some nice growth.

Robert James Gamgort
Chief Executive Officer & Director

A

I think in addition to it, as you can imagine, with Boulder, more of the synergies that we get are going to come in the out quarters versus the first quarter under our management. So there will be some momentum that we'll be

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building throughout there. But the majority of the impact, as Craig said, is really driven by a significant investment in Q1 that we will then be able to benefit from in the rest of the year.

Eric R. Katzman
Deutsche Bank Securities, Inc.

Q

Makes sense. Thank you.

Robert James Gamgort
Chief Executive Officer & Director

A

Thanks, Eric.

Operator: Thank you. This ends the Q&A portion of today's call. I'd like to turn the conference over to management for any closing remarks.

Maria A. Sceppaguercio
SVP-Investor Relations & Communications

Thank you, everyone. Thanks for participating on the call. I know it's a busy day for you with a lot of reports happening in the sector. I'm around all day, so if you have any follow-ups, don't hesitate to reach out. Take care.

Operator: Ladies and gentlemen, thank you for your participation in today's conference. This concludes the program. You may now disconnect. Have a wonderful day.

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