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Pinnacle Foods Inc.

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Speakers:

Robert Gamgort, CEO
Craig Steeneck, CFO
Mark Schiller, EVP and President, NA Retail

Andrew Lazar: Please join me in welcoming Pinnacle to the 2015 Barclays Global Consumer Staples Conference. Since its IPO in early 2013, Pinnacle has adopted a dual strategy, focused on pragmatic-based business expectations, and an opportunistic use of cash to enhance shareholder returns. With the stock having more than doubled since going public, the merits of the strategy have been clear, as Pinnacle has consistently gained market share through effective innovation, leveraged productivity, to expand margins, and created value through the strategic bolt-ons of Wishbone and Gardein. Even so, the company sees significant opportunity going forward, and has openly expressed its interest in further consolidating the packaged food space.

Here to discuss Pinnacle's forward plans are CEO Bob Gamgort, CFO Craig Steeneck, EVP and President of North America retail markets Mark Schiller, and SVP of Investor Relations, Maria Sceppaguercio. Bob, I'll hand it over to you. Thanks for being here.

Bob Gamgort: Thank you, Andrew, and welcome to everyone. Thank you for joining us today. You are familiar with forward-looking and non-GAAP statements, and what I want to jump right into is the TSR algorithm that we used at the time of the IPO, so for any of you who have tracked us since then, you're going to see a common theme in terms of the TSR algorithm, the strategy that's driving the business, and we're happy with that, because it's working in the marketplace, and it's really allowed us to focus on improving the execution versus trying to create the new strategy every couple of years. So, the hallmark of this strategy is to take growth that's in line with categories, recognizing that all of traditional grocery has been challenged in the past couple of years, and expanding that into 4% to 5% operating income through gross margin expansion, and 7% to 8% EPS because of the gross margin expansion, combined with great management of free cash flow, and we're going to take you through the specifics of how we've delivered against this. But our target was 10% to 12% TSR from an organic perspective, with the knowledge that if we're able to execute high-quality acquisitions as we have done with Wishbone and Gardein most recently, we could accelerate those returns.

Quick snapshot of our portfolio - broadly diversified across a number of brands, with anchors in the shelf stable and the frozen category, and our newest addition to our business is in the frozen side, which is Gardein, a fast-growing plant-based protein business that I will talk more about in a couple of minutes.

But we can't manage that portfolio the same across all brands. What's critical is that we place our focus on those brands that have the highest potential for growth and return on investment, and so we segmented our portfolio broadly into leadership and foundation brands. From a practical standpoint, we have a much more granular management of how we think about these brands within each of these buckets, but it's helpful to think about it in those two broad constructs.

Leadership brands are those that we are clearly investing in marketing, because we're trying to drive share growth and we're working not only on renovation, but we're looking at breakthrough innovation into new platforms, and Mark Schiller is going to take you through some specific examples on a couple of our brands about what is a platform actually look at. The other part of our portfolio are foundation brands. These are important brands, but we manage them in a very different way. We're looking for stability, and we're managing them for high free cash flow, to invest back over into the leadership side of the portfolio, and our goal here is to make sure that we are not over-investing in a brand that's not going to get a high ROI, like the leadership brands would do. And this is how the composition of our portfolio continues to shift. So more of our net sales and profit is coming from our leadership brand portfolio, as a result of leadership brands growing faster than foundation brands. And that's also a positive mix story, because the profitability from our leadership brands is greater than the profitability of our foundation brands, so one of the drivers of gross margin is the fact that leadership brands grow faster than foundation brands. And that's part of the mix benefit that we will also talk about.

So how have we delivered against our original TSR since the time of the IPO? 2013, we delivered 42% TSR. 2014, we delivered 17%, and Craig will take you through how we're performing in the first half of 2015. And that acceleration beyond our original TSR is driven by a combination of very strong organic growth performance, combined with the acquisitions I talked about before, in the form of Wishbone, and to a lesser degree, because of timing Gardein.

So what I really want to talk about is our strategy, and what's nice about our strategy is, you can put it on one page, and it's not a very long page. The magic is not so much in the design of the strategy, it's about the execution and the consistent execution of that strategy. So as I said before, our primary focus and where we dedicate the majority of our organization and our resources, is towards our leadership brands, and we're looking for innovation and marketing to drive those brands, whereas in our foundation portfolio, we take a lighter touch, and are more focused on brand renovation there. Efficiency is critically important in this model. It's one of the ways that we're able to take $1 of sales and translate it into gross profit and cash flow better than just about anybody in the industry, is through the efficiency of our business model. And typically, when talk about efficiency, we jump right to overhead, and we run SG&A overheads at about 9% of net sales, which is about one of the lowest, certainly, in the industry. And that's been consistent. But a bigger piece of the story is the very strong and consistent productivity, targeting 3% to 4% cost of goods year in and year out, and we've actually performed at the higher end of that.

And then the last part is cash flow. We have a very strong organizational focus across all functional areas, on making sure that they're contributing to all the factors that drive cash flow, and cash flow gives us a tremendous amount of optionality to pay a dividend, to pay down debt, to make acquisitions, and to give us other ways to return value to shareholders, which Craig will take you through.

So in the simplest state, that's our strategy. And what we want to do today is give you real-life, tangible examples of how this strategy has been executed to deliver strong shareholder returns. And I'll start off with a real proof point, which is market share growth. In the end, this is the battle at the grocery shelf, consumers are voting with their dollars, for products, and the way that you know that your innovation and marketing is resonating with the consumers is if you're gaining share. And you can see that if you take a look at a composite market share - this is our performance, across all the categories in which we compete, we've had market share growth consistently since 2012, and you can see it's accelerating in more recent years, particularly year-to-date, where we're gained on a composite basis, about half a share point. Now what's important is, that share growth is widespread, and it's really, really across most of our leadership brands. So if you take a look at all of our leadership brands, you'll see that on a year-to-date basis, we've gained share in seven of those eight leadership brands. So not only is long-term consistent share growth across the portfolio, it's very much focused in the areas where we're placing an emphasis on innovation and marketing, and these also happen to be the brands that have higher margins, so there's the mix benefit that I talked about earlier, in action.

The other thing I would point on here is the strength of our brand positions in our categories. Number one and number two in the majority of categories in our portfolio, and as you think about consolidation from a retail standpoint, having brand leadership is critically important. You'll see that the one area where we're number four, it's a little bit of a tough category to measure right now, that's where Gardein sits. It's listed as frozen refrigerated meat substitutes, which doesn't quite capture the category, but I'm going to show you some growth numbers in there and you'll see that this going to be moving up in the rankings very quickly.

So today, we can't talk about all of the brands. We're going to focus on these five, with some examples of how we're delivering the share performance. I want to give you an update on Wishbone and shelf stable salad dressing, the one category where we haven't gained share year-to-date. And I'm going to start off by turning over to Mark Schiller, who will talk about starting with frozen vegetables, how we're activating that part of our portfolio.

Mark Schiller: Thanks, Bob. So we have the privilege of managing one of the largest health and wellness brands in America, and that's the Birdseye brand, and we're pleased to report that the growth on that business has been accelerating, largely behind a lot of innovation. We talked to you already about the Flavorful launch on Birdseye Veg and the Proteins Blend launch. We're going to talk to you today about some additional items that we've just launched in the last 30 days. Disney-theme side dishes for mom to get her kids to eat more vegetables, and some premium offerings within our bag meal business, Voila!. And we've been marrying that innovation with some terrific marketing, which I'll also show to you, which gives you a sense of how we're branding Birdseye and how can create a common theme that cuts across all of our marketing, to help kind of drive the entire portfolio.

So just to refresh your memory, for those that aren't familiar as well, Flavorable basically addresses the barrier of taste. A lot of people don't like the taste of vegetables, but when you pair popular vegetables with the most popular flavors, things like buffalo and cauliflower, wasabi peas, ranch broccoli, it changes the eating experience of the vegetable, and a lot of people who don't like them now have a reason to try them, and I encouraged you to do so if you haven't, because it's a very different eating experience. And for those that like vegetables, it's again, a reason to eat more often.

We also launched Protein Blends in the second quarter. Protein is a very hot trend within the grocery store, people are looking for more protein in their diet, they want to be satiated, they want to eat healthier, we launched a line of products called protein blends that are consumed both as a side dish or as a light meal, and both of these businesses are off to a terrific start. In fact, about 75% of the distribution that we got on those 12 items was incremental to the brand, and importantly, we are bringing Millennials down the aisle, so we're growing the category by bringing new people, and that's been one of the big barriers in the frozen aisle, is Millennials don't shop that aisle as much as Boomers do, so anything we can do to bring Millennials down the aisle is a real win for the customer, and a real win for us.

To date, of the 12 items that we've launched, all of them have velocities in the top half of the category, so the initial trial on these items is terrific, and we're supporting them with dedicated marketing that halos to the entire Birdseye franchise, but allows you to experience these products and understand the benefits individually.

On top of that, we've been marketing vegetables to kids for a couple of years now. We're one of the first to kind of take healthy food and go directly towards kids, trying to make vegetables cool by partnering with some of their role models, who would give reasons for people to eat them more often, as opposed to mom trying to convince kids to eat the vegetables, it's a lot easier if it comes from some somebody that they respond to, somebody that they admire, so we've partnered with Nickelodeon a couple of years ago, we morphed from that into joining the Partnership for Healthy America, where we got a lot of accolades from the White House for helping kids eat healthy, and we've migrated into a partnership with Disney, using some of their popular television shows and actors and actresses. And we're now moving from the marketing side, which is communication-based, into the product side, by launching Disney-themed products for kids. So, a starch, a light sauce, a vegetable, the pasta is shaped like favorite Disney characters, Frozen, Cars, Mickey and Minnie. Just launched in the last 30 days, only a handful of customers have them at retail thus far, but I'm pleased to say, very early on, two of these four items are moving in the top ten of the entire category, and all four of them, again, have velocities in the top half of the category. So, consumers are finding these on their own, they're talking about them in social media, we're getting a lot of trial, and it's resonating.

Voila! is a terrific story. So, you know, we've had regular Voila!, which is largely a chicken-based line of vegetable-rich meals at a great price. A couple of years ago, we moved from regular-sized to family size, thinking that we would trade consumers up, which in fact we did, but we also brought a lot of new people in to the category. The incrementality on family size was more than 50%, much higher than we thought when we launched it. And this has been an amazing journey for us, so since we acquired Birdseye at the end of 2009, we've grown our share from just under 16% of the bagged meal category, to almost 40% of the category, and if you look at the curve there, it is in fact accelerating. Year-to-date, our consumption on Birdseye Voila! is up 16%, so when people talk about the frozen aisle being challenged, and how hard it is to find growth, we've got a very sizable business here that's growing 16% and the veg business is growing very rapidly as well, and in fact, we're growing so fast that we are continuing to add capacity to keep up with the demand for these products.

Now what's great about Birdseye Voila! is it only has 12% household penetration, so whereas the Birdseye franchise has more than 50% household penetration, the people that buy this buy a lot of it; our job is to get them to buy more often, but it's also to bring new people into the category, and we're doing that by advertising the Voila! franchise for the first time this year, and I'll show you those ads in a second.

We're adding innovation to the Voila! line. One of the big reasons that people say they don't eat Voila! more often is they want offerings other than chicken, so it's largely a chicken-based line, to get an attractive price point, but what we've learned is that if we give them beef, if we give them pork, if we give them seafood, they'll consume the brand more often, and just as in a restaurant you would expect to pay more if you're getting beef, or seafood, than you would for chicken, we're launching this line, as we speak, at a 20% premium price to the regular line, Voila!. So again, consistent with our strategy of trading people up, and launching margin accretive innovation, we're very excited about this, and again, this is just started shipping in the last 10 days.

So now let's talk a little bit about advertising. You know, one of the things that we wanted to do with all of this innovation is create an umbrella communication platform that would be instantly recognizable about- as the Birdseye brand. So how do we do that? We introduce two spokes-characters, which are birds, so as soon as you see these spokes-characters, you immediately think of Birdseye, incredibly well-branded, and what we're doing is a lot of 15-second ads for each of the pieces of innovation as well as social media, PR, et cetera, to make sure that these characters get situated, as well as finding consumers where they consume information. So what I'm going to show you right now is three 15-second ads that we're running as we speak. Two of them are the innovation for Birdseye Veg, and Voila! ad. All of these have tested exceptionally well and are driving a lot of the sales growth that I've talked about so far, so let's run those ads.

[advertising played]

Mark Schiller: So behind the power of the advertising and the innovation, we've accelerated the growth rate on Birdseye Veg. I think in the last 13 weeks, our consumption has been up around 9%, and I told you already that Voila! is up 16%, so we're generating a lot of growth on $1 billion business.

Let me talk about how we take this same model and we've applied it to another category that's challenged, which is the baking category, and really, when you think about that category, there's exceptionally high consumer interest. People- some people like to play golf, some people like to paint. For people that are into baking, this is a passion, it's a hobby, it's a form of self-expression. 20 million times a month, somebody goes online, into a search engine, and types in the word ``cake" to find out ideas and recipes, so there's a whole community online of very highly engaged people, even in a challenged category. There are short-term pricing pressures within this category, which I'll talk about, and there are some structural barriers within this category that again, we have to address as one of the leaders.

And so how we go after these three things? Well, with regard the high consumer interest, obviously we've got to tap into the passion and excitement that people have for baking, and I'll show you how we do that. With regard to pricing, we've really been spending our energy trying to trade consumers up, to create value-added, differentiated offerings that people will pay more for, that are margin-accretive, highly branded, and highly differentiated. And then we have to innovate against the structural barriers, to understand the problems that consumers have, why they're leaving the category, or why they're baking less often, and create solutions to those problems.

So let me take them one at a time. Let's start with tapping into the excitement of baking. There's- I could do a half-hour presentation just on this, but we have an incredibly engaged consumer base on Duncan Hines. We were just named by Facebook as the highest engagement brand that they have. What that means is, when we post something on Facebook, the amount of time that people spend on it, and the amount of reposting that gets done is more for Duncan Hines than any other brands - more than McDonald's, more than Starbucks, more than Coca-Cola. Duncan Hines is their highest engagement brand. And versus our competition, you can see there that we get about three million interactions to 1.1 million interactions for our competitors combined, so within the baking space, we are the go-to brand for bakers in terms of tips and tricks and understanding of how to be a better baker.

On the right-hand side, we've also created this highly interactive website, so when you go on the website and you type in, you know, ``after school snacks," what happens is the website learns each time that you go on, and so the next time you go on, your home page, when you go on to the Duncan Hines site, is customized, based on what you have searched the last times that you were on there. So over time, everybody has a different home page and landing page on Duncan Hines, that is specifically targeted to what you're interested in. So, for people that are into baking, they don't want to have to spend a lot of time trying to find the stuff that they're interested in; the fact that we know them and what interests them is very appealing to them.

And then the other thing is we've created this community called the Duncan Hines Bakers Club, which is about a half a million people, a little bit more than half a million people, who have a self-contained community where they share information with one another. It allows us to communicate with them and give them access to new products and ideas that we have before we ever launch it. It also allows us to learn from them, in terms of what are the barriers that we need to be thinking about as we're innovating or communicating to them. So, a very highly engaged group that we're doing a really terrific job against.

The second is about some of the pricing pressures in the category, and if you go back five years ago, 100% of our sales were on the left-hand side of this chart, in the Classic line. The Classic part of the category is more commoditized, it competes on price, the products are a lot less differentiated. What we did about three years ago is we split the classic line into Classic and Signature, knowing that we had some offerings that were unique to the category, that were known as kind of signature items for Duncan Hines, like red velvet cake, and we priced those and separated them from the Classic line, allowing us to margin up the business and trade consumers up. So if you want an orange cake or a tres leches cake, Duncan Hines is the only one who has it, the elasticities are a lot lower and we knew we could get people to pay more for them.

And then from an innovation standpoint, we focused the vast majority of our energy on the decadent part of the business. Just to give you a frame of reference, decadent offerings sell at about three times the price of the classic offerings. They tend to be kits that go after a much more decadent eating experience, much more of a ``wow" factor when you serve it to your company, and we've built a very substantial business in that decadent line, a much higher margin business than the Classic line.

So our strategy over time has been do what we have to do to stay competitive, on the left side of this equation, but spend the vast majority of our time and energy growing the right side of this equation, which is margin accretive, much more uniquely branded, and builds our equity. And what you find is, over the last couple of years, we've, after growing share in the Classic line, we're down slightly this year. After growing share in the Signature line last year, we're up again this year, but importantly, on that right side, the hard margin side of the business, we're consistently gaining share. And what's great about this chart is that in all three segments, we've been able to get pricing in excess of the category. So even on the part of the business that competes primarily on price, we've been able to get more pricing than the rest of the category. Year-to-date, our price is up about 2% in baking, the rest of the category, excluding us, is down about 2% in price, so that's boding very well for us in our performance.

And then the last piece I want to talk about here is structural barriers within the category. One of the structural barriers in this category is that 60% of households in America are one and two-people households. If you buy a box of Classic cake mix, it serves about 12 to 14 people. So clearly, there's a large group of people whose needs are not getting met when they buy a box of cake mix and it's enough for 12 to 14 people. You know, the problem that they've got is, in their house, they have an eight-inch pan, and giving them something in a small quantity, they don't have a smaller pan. They'd have to go buy a pan for $20 and they'd have to meter out the cake mix to the size of that pan, so what we've done for them is we've created this line called Perfect Size, it's a cake that feeds two to four people, it comes with a disposable pan, as well as the cake mix and the frosting, so you bake in this pan and when you're done, you throw the pan away, so there's no cleanup. So we're providing a real kind of need for the category that a lot of people have looked over, and so far - this launched in July - but so far, 27% of the people that have bought Perfect Size did not buy a single unit in this category in the last 12 months, so in a category that's got some structural barriers, our ability to innovate and bring people back to the category or bring new people into the category bodes very well for kind of addressing some of the structural barriers in getting this category back on track.

So we're really excited about this, it's very early days, our customers are rewarding us with more space, because they recognize that we're really solving a need, versus just competing on price, and it positions us well for future innovation against additional structural barriers within the category.

So with that, let me turn it back to Bob, who will talk a little bit now about M&A.

Oh, I do have one more, sorry. Thank you. Here's what people are saying about Perfect Size. Thank you, Bob. And you can go on our website, you can go on Facebook, they're playing back the benefit of this offering spot on, so ``thank you, thank you, thank you, I was making the other cakes and throwing them away after two days. Too much cake. Thank you so much." Another one - ``Thank you for having a great new product called `Perfect Size.' There's only two of us, and this is the right amount of cake for us to bake, so they get what the benefit is, they're buying it because they love to bake, but we didn't really have an offering in this category that met their needs, and again, very early signs, this is just launch, but we're really encouraged about the future of Perfect Size.

Now Bob will talk a little bit about M&A.

Bob Gamgort: All right, thanks. Lots of conversations in our small group meetings last night and today about M&A. I thought it would be helpful just to give a quick refresher on sort of the sweet spot of acquisitions as we look at them. North American focus we're looking, because we have such a broad portfolio right now, to add to our existing categories or adjacent categories. We're not interested in buying businesses that are fourth or fifth players in their categories, that are distressed. We're looking for businesses that, if they're not in leadership position, we have line of sight to get them to leadership, and that's certainly the case with our most recent acquisition. Synergies are the primary way that we pay for these acquisitions; obviously we treat growth as an opportunity above and beyond that, and we clearly have gotten that on most of our acquisitions, and then speed of integration is critical. Typically, from start to finish, in the integration, we're done within six months and that means full integration of the supply chain. The one exception to that is Wishbone, and I'll take you through that in a minute.

That doesn't mean that we're going to be absolutely stuck to these criteria if we don't see a great opportunity that fills a need within our portfolio. I think Gardein is a good example of a business that helped us accelerate the growth in our veg business, both through initially the Gardein brand, but eventually through the Birdseye brand, that's why it doesn't meet all this criteria, but we jumped on that, and I'll give you an update on how well that's doing.

So our most two recent acquisitions were Wishbone and Gardein. A real quick update on Wishbone - I think the category is highly competitive. One of the things that's interesting is, salad consumption up and salad as a meal consumption is up, but the shelf stable, pourable salad dressing category has been flat to down. There are some impediments to the category that are very, very similar to the way Mark described baking, and so our innovation process is to go after those challenges within the category and solve them through our innovation. Despite the fact that the top line has been more challenged, our profitability has been very much on track with the acquisition model, because the synergies have been good, and our in-house manufacturing, which is not only the key to unlock of the majority of the synergies, but also our ability to implement innovation, was just completed in the past quarter. So if you'll recall, Unilever was producing for us while we were building a new facility in Illinois. We were running side by side as we started up that facility. We're now off the Unilever agreement, we're running 100% out of our new facility in St. Elmo, Illinois. It's running well, and that's why we're going to be able to deliver the synergies as well as launch innovation. And we'll be sharing that innovation with you at the end of this year, because the first wave of it will be shipping in 2016, and again, having our own manufacturing was key to that.

Gardein was an acquisition we made last year, very exciting category. Plant-based protein is rapidly growing. Again, we were interested in it because we looked at our Birdseye innovation pipeline, it was driving us towards plant-based proteins, so we realized we could accelerate those efforts by making an acquisition like this. Typically when you think about plant-based proteins, the first thing that comes to mind is veggie burgers. This is a line where veggie burgers is a very small percentage of what we're selling here. If you haven't tried it, there's coupons in the gift bags; I encourage you to do so. It's hard to talk about how great it is, it's better if you try it, but as you can see, it's broad-based, it gets into main meal segments, not just sandwich segment, and it includes not only the protein, but also the sauce as well. We're particularly excited about this because we think we're at the early stages of a macro trend, because this category is very similar, if you were to think about the plant-based milk segment. What's working for it is, you get the health and wellness benefits, but you also get environmental sustainability, as well as affordability. When you look at the price of Gardein versus its animal protein analogs, in most cases, it's cheaper than its protein analogs. Worst case, it's the same price, and as I show you some of the innovation, as we get into more interesting protein complements, the price is actually very good, relative to its comparison.

Obviously that's all really great, but we're in the food business. The critical unlock is this product tastes incredibly good, and that's what's making it get the traction that it is, and I could foresee this being a substantial portion of the meat protein business, very similar to the way plant-based milk has done the same thing in that category.

Let's talk about growth. We look at it in traditional channels, so in IRI or Nielsen, that would be the MULO channels, or natural and organic channels, as captured by spend. You can see tremendous growth in both. 31% consumption in traditional, 40% consumption in natural and organic, with a ton of capacity expansion potential. And that's got us to the point where we have added capital to the plant that we acquired in Vancouver, British Columbia, and we've been able to bump up the capacity there to solve our short-term growth needs, but with these kind of growth targets, and this amount of opportunity left on just on ACV distribution expansion alone, not to mention velocity driven by innovation and marketing, we've had to go out and get a new site. It showed up on Google Alerts today. We were planning on talking about it today for the first time, and we just acquired a plant in Hagerstown, Maryland, to be the next production site of Gardein. It will give us West Coast and East Coast. It's a former Unilever ice cream plant, so it has a lot of the frozen infrastructure that we want, and it gives us not only the ability to start with increased capacity in the early 2017 to satisfy these growth needs, it is scalable as well, so we'll able to fuel this growth within the same building as the business continues to ramp up. And a lot of this growth is driven by innovation.

So if I started off by talking about plant-based proteins and you thought about veggie burgers, this is the kind of innovation that's launching -- Sweet and Sour Porkless Bites, Crabless Cake, and Fish Filets, which is a real award-winning product, that's the one to try, if you've never tried the product. That's the one that convinces everyone. These are really differentiated products, compared to what you typically find in the category, and then obviously there's an opportunity for us to move into hand-held, on-the-go meals. So lots of potential off of this business, and a great fit for the Birdseye business, as we scale this.

So, Mr. Steeneck, takes us through the first half financials.

Craig Steeneck: Thank you, Bob. Good afternoon, everyone. Let me take you through the first half, as Bob said. A solid first half performance, on top and bottom line. Our net sales up almost 3%, you know, clearly aided by the Gardein acquisition. Gross margin flat, as we had a higher level of inflation in the first half than we'll have in the second half, and productivity also back-end weighted, so flat performance is right on our expectations, and getting our diluted EPS to plus 9%, aided by the tax rate and lower interest.

Hallmark of this portfolio continues to be how we drive productivity, and you can see over the last three years, if you include 2015, our productivity is forecasted to exceed inflation, our guidance relative to productivity at 3% to 4% of COGS. Last two years, clearly on the high side of that, expectations relative to this year, and you know, we've benefit from a level of inflation that's been at that 2% to 3% level, expecting 3% to 3.5% this year and as I said, there's- the productivity versus inflation equation for the first six months of this year, higher level of inflation the first half, lower in the back half, lower level of productivity, more productivity in the second half, so you'll see a meaningful increase in the gross margin percent in the back half of this year.

Our input cost basket, you know, extremely diversified - $1.9 billion, all in, cost of goods. And like all portfolios, you have some components of it that are more inflationary; that's been logistics, which is more of an industry phenomena, where you have capacity constraints, and you know, inflation in that area. Protein clearly has been something that's been inflationary. We've been able to price to kind of offset a fair portion of that, and our conversion cost, as we've seen significant growth behind Birdseye and Voila!. And then deflationary categories - I mean, everyone tracks the trackable commodities -- you know, wheat, corn, soy oil, all deflationary for 2015, and for us, sugar and cocoa also falls into that category.

The effective tax rate -- the effective tax rate gave us a significant benefit in the second quarter, and will continue throughout 2015 as part of the guidance that we've laid out there. If you track back to 2014, round about a 38% effective tax rate, a number of one-time benefits that affected the rate so far this year, most of that is state legislation, like the State of Connecticut just increased the rate. In the third quarter, you've got, you know, a fair amount of that, which brings you down to 38.7% and then we've gotten two significant advantages in terms of the effective tax rate. Domestic products activity deduction. Now that we have become kind of a full-fledged taxpayer, or as we will in 2016, we were able to deduct manufacturing production that you do in the United States, and the same thing with the foreign tax credit. So that will bring, and as incorporated into our guidance, an all-in effective tax rate of between 36.5% to 37%. So, good news/bad news. You've got a significant benefit in terms of your EPS, tax rate coming down, but it means ultimately we become a cash taxpayer.

Cash flow continues to be highly generative. We convert EBITDA to cash at a 80% to 90% ratio. We're looking for over $400 million of unlevered free cash flow for 2015, coming off our year last year at $450 million and that's despite- we're going to be carrying slightly higher inventories for the balance of this year. We've had a very good and robust crop season through the summer of this year, which will give us a nice benefit to costs for 2016. And that translates into a free cash flow yield of almost double our peer set. Us at said 6%, with the peer average at about 3%, so it highly translates into very fine cash flow.

So what drives that cash flow? First and, you know, foremost, minimal cash taxes. You can see over the last several years, it was really minimal taxes, $17 million expected for this year. That's the benefit of the NOL and being able to shield our income, and we are using a fair portion of that through the end of 2015, but the residual, about 25%, will carry out into 2027, and then above and beyond that, you get acquisition-related amortization, you know, linked to Wishbone and Gardein, and that 15-year amortization period, that carries us out to 2029. And the combination of those two things give us about a $65 million tax shield against our income for the next 10 to 15 years. And as I mentioned before, because you become a taxpayer, you're able to take the advantage of those two things in 2015, the foreign tax credit and the Domestic Manufacturing deduction.

Interest - we've significantly delevered the portfolio. We're at about 4.1 times [at half]. We'll be mid 3s by year-end significantly lower than what we've been carrying over the past years, so we've got a reduction in terms of the quantum of debt, and we have significant rate benefit. We refinanced right after the IPO in 2013 and we were able to take a quarter point reduction in our term loans, because our leverage ratio came down past a certain point at the end of 2014. So, $90 million in interest expense forecasted for 2015.

Capex - you know, we manage our capex right around about 3% of net sales. You know, in the mid-80s for 2012, 2013. You can see the split between kind of our base capital and the acquisition integration capex. The 2014 bar, the Wishbone acquisition, Bob referred to it before, we spent about $50 million putting new capex into our site in Illinois. And then in 2015, the carryover cash of Wishbone, plus some Gardein, so the new plant that we acquired in Hagerstown, Maryland, is part of that acquisition related capex for this year.

Capital allocation - great portfolio, highly cash generative. Obviously you know, what you do with the cash is enormously important, and after servicing the debt, and continuing to pay a dividend at round about 50% of net earnings, you know, our prioritization is as follows -- first and foremost, we'd like to reinvest it into acquisitions, so we've kind of got some dry powder on the balance sheet now, relative to future M&A, as I said, with our leverage ratio being in the mid 3s by the end of the year. After M&A, the next priority would be debt reduction, continued to delever as we've done in the past years, and then last but not least, some time in the future, we'll develop a share repurchase program, obviously, in discussion with our board for the future.

With that, let me move to our outlook and reiterate our guidance. This is the guidance that we talked about in our second quarter call. We continue to expect that we'll gain share for this year, as we've done for the first six months. Inflation at 3% to 3.5% of cost of goods. We said lower inflation the first half, more inflation in the back half. Productivity at 3% to 4% of COGS, again, much more productivity coming in the back half. Effective tax rate, I just took you through, at 36.5% to 37%. Diluted EPS, we went to the high end of our range, at $1.89 to $1.91, so almost 10% growth in terms of EPS, and again, you'll see more profitability in the back half as a result of that productivity to inflation equation, and capex at 110 to 120, which includes the incremental capital from Gardein.

So with that, we'll open it up to your Q&A.

Andrew Lazar: I think we have time for maybe one or two quick ones, then we'll head over to the breakout. But you've been asked just a bunch of times already, but maybe for the benefit of the broader group, two specific things with respect to the recent Green Giant acquisition announcement last week. One would be, first off, you know, the expectation is the buyer will double the advertising, bring it back to what maybe it once was on this brand, several years back. The one way to look at that is it's more competitive for you. The other way is, you're going to have another very large player, carrying its weight, hopefully, in a category that's more on-trend, so just your perspective on that real quickly. And then, the valuation that that business went for I think surprised a lot of people, given how much vocal interest there seems to be in frozen assets these days. I realize the carve out math can be a little difficult sometimes, but just your perspective on that I think would be helpful as well.

Bob Gamgort: Yeah, I think if you look at this category, to your point, it's very much an on-trend category, and we think it's incredibly expandable. Less than 10% of Americans eat the minimum daily requirements of fruits and vegetables every day. We have an opportunity just to continue to expand that category. And then the other point to emphasize is that more than half the category is private label. This is by no means a Birdseye/Green Giant battle. It's very much a ``how do we expand the category'' and ``how do we continue to trade people up to a value-added product'' from sort of a base level, commoditized vegetables, to a value-added, vegetables, starch, protein combinations, exactly what Mark showed you. So we focus very much on those points and driving our business to great success. I don't expect much change. It's not as if General Mills wasn't a competitor in this. They were a good competitor in this category, and I think that will very much continue.

With regard to the marketing spend, what we've learned in this category is that it's really innovation driven more than anything else, and what works incredibly well is when you are advertising your innovation, so I don't really think in this category that advertising a brand by itself, without any new news, does much in this category. What really needs to happen is strong innovation, like the examples that Mark showed you, and then using advertising as the platform to communicate that innovation.

With regard to the valuation, you said what I was going to start off with, which is having experience in corporate carve-out, I think you have to make sure that you really understand what the EBITDA is, and so I don't have a strong opinion on that, but I don't put a lot of faith in multiples on a corporate carveout. You have to decide for yourself as the buyer what you believe the EBITDA is. And I also think the fact that the business has been challenged, it was impaired, it's got a very large component, about 40% of it is canned, and last part is, it's not a business that controls its own supply chain, very much like we do. I think it's fundamentally a different business and a different business strategy, so if there's a valuation difference, if we were to figure out what it was, it wouldn't surprise me. I think it's warranted.

OK? So we'll go to the breakout room and pick up more questions there.