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Pinnacle Foods, Inc. (PF)

Barclays Global Consumer Staples Conference

CORPORATE PARTICIPANTS

Mark A. Clouse
Chief Executive Officer & Director, Pinnacle Foods, Inc.

Craig D. Steeneck
Chief Financial Officer & Executive Vice President, Pinnacle Foods, Inc.

OTHER PARTICIPANTS

Andrew Lazar
Analyst, Barclays Capital, Inc.

MANAGEMENT DISCUSSION SECTION

+MANAGEMENT DISCUSSION SECTION

Andrew Lazar
Analyst, Barclays Capital, Inc.

Hi, everybody. If we can make our way in, find our seats. If we've got enough, there are single seats here and there, if you guys can take a look around. Got another – I think another seat up here or two in the front row here on the – to my left.

Great. So, let's go ahead and kick this off. Good morning, everyone or now afternoon. Welcome to the 25th Annual Barclays Global Consumer Staples Conference. I'm sure that when John MacMillan started this event a quarter-century ago, he expected that this conference would in fact stand the test of time. But, I'm not sure he envisioned I would be on this stage to ring in the anniversary.

This is truly a fun and special event to host. And as always, we'd really like to thank all the companies and investors, for spending the time with us here in Boston, as we close out the summer and look ahead.

As many of you know, I'm Andrew Lazar, and I cover the U.S. packaged food space. Joining me up here on the dais are Simon Hales, who heads up our European Consumer Staples Equity Research effort; and [ph] Ben Thur (01:00), who leads our Latin American Consumer team. In addition, Warren Lieberman, who as most of you know, covers U.S. Cosmetics, Household & Personal Care, is right next to our introducing Avon, and will also be picking up coverage of the U.S. beverage companies later this year.

I'm pleased to report that attendance this year is up nearly 15%, has set a new record for the conference. And while I'd like to believe it was an honor of our 25th Anniversary, we recognize it's perhaps more related to all the activity in this space. Since our last conference, not only have we seen heightened deal flow across both public and private companies, we've also seen consumer staples companies take more aggressive steps in response to a challenging global demand environment. So, we look forward to hearing the presenters this week further articulate their strategies for successfully navigating an increasingly dynamic consumer landscape.

Lastly, we also appreciate any feedback about what you like about the conference and what we can improve going forward. We'll be hosting office hours, so to speak, over the next two evenings at the hotel lobby bar RumBa. So, please feel free to provide any suggestions to team Barclays and we'll be there in full force.

And now, I'd like to introduce our first presenter, Pinnacle Foods. We're delighted to have CEO, Mark Clouse presenting for the first time since joining from Mondelez in May, where he held a number of senior roles, including his most recent position as Chief Commercial Officer.

Mark is joined on the stage by Pinnacle's long-time CFO, Craig Steeneck, who has been instrumental in leading the company's strategies since its IPO in early 2013; and Maria Sceppaguercio, who many of you know, leads up the IR effort. We look forward to hearing Mark and Craig's views on the opportunity to extend Pinnacle's successful approach into the future.

So, it's now my pleasure to turn it over to Mark. Thanks so much for joining us.

Mark A. Clouse

Chief Executive Officer & Director, Pinnacle Foods, Inc.

Great. Thank you, Andrew. I'm excited to be here after about a 100 days with Pinnacle and with standing room only, I think we're going to have to deliver something impactful. So, we will spend the next 40 minutes or so going through the plans for Pinnacle. But I wanted to start with kind of sharing my take on the business up-to-date, as well as then providing you some ideas and thoughts about where we're headed going forward.

But before I get started, I'd like to direct your attention to the page behind me. The forward-looking statements and non-GAAP financial measures slide on the screen. This information along with the reconciliations to GAAP measures is included in the slide handouts we provided and is also posted on our website with the presentation.

In terms of the agenda today, I'll provide a brief overview of the company, and then walk through the Pinnacle playbook, including how the team has been able to sustain such strong results. Craig will share where we are in 2016, and our commitment to delivering another very strong year. Then, I'll talk about how we're going to amplify the playbook and create the next chapter of value creation. This will set up the Investor Meeting we are planning before year end, where we will fill in much more the details.

So with that, let's get started.

We have a broad $3 billion portfolio that has evolved significantly over the last several years. The business has strong positions in frozen and dry grocery, with a rapidly expanding health and wellness portfolio, following the Gardein and Boulder acquisitions. A key strength of this portfolio is that for the majority of the categories that we compete in, we are a leader or strong number two.

We have built significant scale and capabilities on the business, which enables broad reach and efficiency for our brands. However a strong portfolio alone is only a good start, it's what we do with it that really matters.

So, now, let's take a look at the Pinnacle playbook. I've had some time now to watch the business operate and get to know the team, and to say that I've been impressed would be an understatement. I believe the team has built an incredibly effective playbook for driving results in value. The playbook has four key pillars. It starts with financial discipline, with strong cost and cash management.

The next pillar is smart marketing and innovation. The team has maximized the investment, but also created a highly consumer relevant and impactful products and programs. The third pillar is the organizational model, it is a very experienced team of operators with a clear commitment to a low-cost culture. Finally, we have built world-class acquisition and integration expertise. Needless to say, this playbook was a big reason why I was excited to join Pinnacle, but it's awfully reassuring to be able to see it for yourself.

Let's now take a closer look at each of the pillars. The foundation of the playbook starts with a relentless pursuit of costs and margins. This commitment is evident in the company's delivery of productivity at the high end of its targeted 3% to 4% of cost of goods sold, which has consistently outpaced inflation. Discipline around mix and ensuring that innovation is margin accretive, has complemented the productivity agenda.

Additionally, good fundamentals are in place on pricing and trade efficiency. These efforts together have enabled more than 400 basis points of growth on gross margins since the IPO. The mantra that cash is king is alive and well at Pinnacle. There is a commitment to driving working capital improvement and optimizing our debt and interest expense. This has projected flexibility, to balance both long-term and short-term objectives. In fact, by year-end 2016, we expect the business to generate in excess of $1 billion of free cash flow since the IPO.

Next up, the marketing and innovation portion of the playbook. A key element of this pillar is clarity around the role that each brand plays in the portfolio. This has been critical to creating efficient resource and investment models. With that clarity in place, the team has been able to improve fundamentals on the business and drive high ROI on marketing and trade spending. A competency that I can honestly say has impressed me, has been the speed to market of innovation, and it's not simply launching anything, but truly consumer-driven and margin-accretive products.

These drivers together have led to a steady increase in TDPs, up 41% since the IPO, which has fueled nearly two points of composite share growth over the same time period. A tremendous combination when you think about the 400 basis points of gross margin expansion as well. A great example of this combination of marketing and innovation is the transformation of Birds Eye vegetables. A strong advertising campaign with a compelling complementary social media platform enabled us to not only support the news on Birds Eye but also the frozen vegetable category.

Innovation has been an important ingredient as well, with three new platforms launched in 2015 and additional expansion in 2016. These drivers have resulted in a 12% increase in TDPs and over 4 points of share growth since 2013. These results have positioned us well as the clear leader in the category and partner for retailers, as we transform the freezer case together. One of the things that makes Birds Eye truly unique as a brand is its ability to expand successfully into adjacent categories; most recently, the meals category. Birds Eye Voila! veggies and protein in a complete meal at a great value is a great example.

We've also added higher priced Voila! offerings with shrimp, beef and pork. This has driven consumption up 27% and share gains of almost 13 points in frozen meals since 2013. But we're much more than just one brand, as we have been successful in applying these strategies across multiple businesses. In fact, in the latest 52 weeks, 10 of our 14 base Pinnacle categories, we've held or grown share, and one of those brands is Duncan Hines. The brand developed a marketing strategy centered on building consumer engagement, including a highly interactive online and social media presence, that's led to over 180 million consumer-driven recommendations for the brands.

In addition, we created a brand portfolio that is segmented into three distinct pricing and benefit tiers, with a significant focus on the premium end, which now includes Perfect Size, addressing both a decline in household size as well as a desire for portion control. Perfect Size has proven to be 45% incremental to the category, supporting the almost 3 share points Duncan Hines has gained since 2013 in the premium segment, and most recently, receiving the Innovation of the Year award from GMA.

Another brand that is building momentum through consumer-driven innovation is Wish-Bone. The dressings category is highly competitive and fragmented, but we have successfully launched two premium platforms this year, with ACV building to 75% by the end of Q2. Both new platforms are off to a good start, with Wish-Bone claiming 5 of the top 10 new items in the category this year and registering market share growth in the last two periods.

Let's now discuss the organization. As many of our peers are taking steps to make their organizations leaner, we were simply built that way. The benefits though are really much more than just low cost. A lean organization forces the need to focus on what matters most. It encourages speed as fewer layers and less process enables faster decision-making. It helps define what is truly mission-critical and has been able to focus on building capabilities, like pricing, productivity and consumer insights.

This has resulted in a cost-conscious mindset and a culture where everyone is focused on driving our 9% of SG&A, not just management, and this has led to sales per employee well above our peer average.

The final pillar, our best-in-class acquisition and integration model. Pinnacle has demonstrated a successful model for selecting and integrating acquisitions. It starts with a discipline in the selection process, followed by a well-defined best practices integration model.

The focus on North America as well as targeting leading brands in existing or adjacent categories has enabled scale and the ability to maintain a lean infrastructure to manage the ongoing business. At the heart of this model is a relentless commitment to value creation through synergy-rich transactions that have been a hallmark of all of our deals.

And finally, the speed of integration and subsequent debt reduction enables us to quickly execute integration and be ready for the next opportunity. Since the IPO, we've added approximately $750 million of sales through acquisitions.

It isn't always synergy alone. In the case of Gardein, we've been able to take a highly differentiated platform and fuel it with disciplined investment and innovation to deliver extraordinary growth. Since acquisition, we have been consistently growing the business at a rate of about 35% and we believe we are just getting started. This success has given us great confidence that our integration model is not simply limited to older iconic brands, but also faster-growing complementary health and wellness businesses.

This entire playbook is what has truly differentiated Pinnacle from our peers and enabled us to over-deliver our long-term algorithm since going public. This performance has generated a TSR of 175% since the IPO, which also has helped us differentiate ourselves from our peers.

Next up, I'm going to ask Craig to come forward and talk a little bit about the playbook, and how it's fueling another great year in 2016.

Craig D. Steeneck

Chief Financial Officer & Executive Vice President, Pinnacle Foods, Inc.

Good afternoon, everyone, and welcome to Pinnacle, Mark. Okay. I'm going to start by taking us through our first half results, which we released in the end of July of this year. Very strong top line at 16.5% growth, obviously fueled by the acquisition of Boulder; a 180 basis points of gross margin improvement, as Mark articulated; and important, continued leverage in the P&L is our operating income was up in excess of 20%, and we continue to deliver diluted EPS in excess of double digits.

Importantly, it was fueled by both strengthening the base business where we had on-plan performance in the legacy Pinnacle business and the Boulder business being ahead of expectations, and importantly, sequential improvement in the second quarter versus Q1 of this year.

That led us to an improved outlook for 2016. You can see the top two pieces there unchanged in terms of net sales in line with our categories and productivity at the 3.5% to 4% range. We did modify the guidance on inflation, where we brought it down to 2% to 2.5% versus the original guidance of 2% to 3%.

Importantly, we took the EPS range up $0.02 on the bottom and on the top, now at $2.10 to $2.15 versus the original expectations. And again, they are on a strong on-plan performance of the legacy Pinnacle business with Boulder providing the upside, where we've increased the guidance on Boulder to $0.07 to $0.08 from the original $0.05.

We're not going to stop with good performance for the first half, we're going to continue in the second half. Very strong programming in place for H2, again driven and led by our Birds Eye portfolio, where we have a very robust program on both marketing and innovation, all capitalizing on the momentum that Mark previously talked about. We're going to continue to drive marketing programs that we've launched and importantly, additional innovation. We're going to generate a new platform, Veggie Made Rice, on top of the three successful platforms we've already launched.

And then, in addition, on the very successful Flavor Full platform, we're going to add potatoes to the line. Not stopping at Birds Eye, Perfect Size is going to continue with additional innovation this time in the pie area, where we're going to add both cheesecake and key lime pie to the successful Perfect Size launch. And then, continued expansion on Hungry-Man, very good performance in the first half. We're going to continue that into H2, with a leading retailer right up the street from us in our Fayetteville, Arkansas plant.

Sustained productivity, outpacing inflation, hallmark of this portfolio. You can see the last several years, we've generated on the high-end of our expectations of 3.5% to 4%. As I said before, we are taking the inflation estimate down to 2% to 2.5%. That really is driven on the performance in the first half where inflation was only at 1.6%, a lot of that influenced by Boulder portfolio, particularly egg whites. And then, you can see from the math there, we're going to certainly have a higher level of productivity in H2 versus H1, consistent with what we've done in previous years, and the level of inflation will also be higher in H2 versus what we've seen in H1.

Our input cost basket has – continues to be very much of a commodity hedge, very diversified portfolio and that $2.3 billion of cost of goods. And here, as you have higher inflation, lower inflation, you tend to get a good mix in there. In 2016, a couple of areas of the of higher levels of inflation, that being in corn sweeteners and in sugar and cocoa. And then, on the deflationary side, all of the tradable grains in terms of wheat and corn and soya oil, proteins in the early part of the year, and as I mentioned, egg whites particularly on the Boulder portfolio.

The Boulder integration has gone exceedingly well, even better than our internal expectations, and a couple of very noteworthy activities have just recently occurred. We announced last week the hiring of a new President for the Boulder business, Michael Allen, seasoned executive from Kellogg's, who has had experience on both Morningstar and other portions of the portfolio, including Kashi. We have completed the One Order, One Invoice integration from a systems perspective that occurred on August 1. We also announced within the last couple of weeks, we're closing down a very small plant that produced EVOL in Boulder, Colorado and moving that to our Fayetteville, Arkansas plant. That transition to be complete in the first half of 2017.

The previously announced SKU rationalization program that we've talked about is now in full force, with the kind of last order date on those original SKUs to be done on October 1. And I would say, at this point in time, with the One Order, One Invoice completed and some other systems integration we've done on the manufacturing side, about 90% of the systems integrations are complete at this stage, with just a couple of small systems to occur over the next month or two months.

In terms of synergies, $30 million of our original expectation, $14 million in year one, $16 million in year two, very much on track and we're very comfortable with that. We're now looking beyond 2017 for additional sources of synergy, which we'll talk about it sometime in the future.

And to summarize the Boulder integration, sales outlook of $460 million to $480 million, influenced by two things; one, aforementioned SKU rationalization that I talked about and the Boulder business having 49 weeks of performance in 2016 linked to the acquisition on January 15. EPS contribution now at $0.07 to $0.08 versus our original guidance of $0.05. And when we acquired the business and announced that late last year, we talked about improving the adjusted EBITDA by about 50%, and we now believe by the end of 2017, that 50% improvement is going to be closer to 65%.

Hallmark of the portfolio, Mark talked about it before with cash being king, strong cash conversion, unlevered free cash flow for the first six months of this year, up 32% versus the previous year. We're now expecting that on a full year basis that unlevered free cash flow will be around about $475 million, which is $50 million higher than our original expectations earlier in the year and that strong free cash flow generates a free cash flow yield, that's about 200 basis points better than a peer set.

Continued to be very disciplined in terms of CapEx expenditures, about 4% of net sales, that includes the acquisitions we've made the last couple of years with Wish-Bone in 2014 and the Hagerstown plant linked to Gardein in 2015 and 2016. This is an improvement of about $20 million from the early part of this year as we've been able to enter some very successful capital leases that is deferred cash not projects into the out years.

And finally, a very much of a history of being able to delever post acquisitions. You can see this portfolio had leverage of the 7.5 times of the original LBO, at the time of the IPO down to 4.5% or 4.5 times. We did lever up when we acquired Wish-Bone up to almost 5 times, but very importantly, two years after that back down to 3.8 times, which was the low mark of this portfolio. So, about a full turn of leverage in a two year period. We did lever up for the Boulder acquisition in early part of this year, up to 4.8 times, fully expect that we'll be back down to 3.8 times levered, about half a turn of leverage improvement per year for this year and next year.

With that I will turn it back to Mark, who will cover amplifying our very successful Pinnacle playbook.

Mark A. Clouse

Chief Executive Officer & Director, Pinnacle Foods, Inc.

Thanks, Craig. Okay. Now on to where we're going. First I think it's clear that the strategy is working at Pinnacle. So there's no real need for a hard left turn or a hard right turn. We're also maintaining the objective of having a compelling base plan that will deliver strong results, and then utilizing acquisitions to accelerate those results and expand scale. The strategy going forward is going to be much more about amplifying the playbook and really driving the full potential on each of the pillars.

As you might imagine coming into a business like this, one of my concerns was, is there more upside, how will we maintain the momentum. And the great news is there is still much more to the story. Across each of the pillars of the playbook, we can see clear amplifiers to continue or in some cases accelerate our results, and create another chapter of sustainable value creation for Pinnacle Foods.

We start with what is truly foundational of our model, and that is expanding margins and cash flow. This has been and will continue to be the cornerstone of what we do. Although we may have driven 400 basis points of gross margin expansion since the IPO, we still remain well below our peer average of 36% and there is nothing structural that precludes us from reducing this gap.

To do this, we will focus on specific amplifiers, starting with broadening our successful MVP approach to productivity and mix. This involves taking a more holistic end-to-end view of our business. Here are some examples. Today, we have over a dozen frozen and dry warehouses in our network, which we believe can be significantly reduced. Some of the savings in this area have already been captured in our Boulder synergy target, but we believe there's more opportunity across the entire network by looking at it end-to-end.

We also have the opportunity to scale indirect purchases across the entire organization including our plants. We are just beginning to address this opportunity, which would improve gross margins and lower SG&A expense.

Finally on mix with our Leadership brands being 10 points higher in gross margin and growing faster than our Foundation brands, we expect to continue to see mix as a driver of margins going forward with opportunities for even further acceleration.

Another area of opportunity is harmonization. After completing several acquisitions, we have the opportunity now to step back and strategically evaluate our ingredient and packaging supplier base. We are uncovering new drill sites for margin improvement. For example, today we have over half a dozen bottle suppliers and well over 10 times that in actual bottles. We believe reducing this number will increase our scale and drive margin, and this is just one example.

We also expect to leverage the learnings from our Boulder assortment optimization work and apply it to the base Pinnacle business to drive even further simplification. On the hot topic of trade optimization, like the rest of the industry, we believe there are opportunities to reduce inefficiencies and drive effectiveness with our retail partners.

On Boulder, we've already to begun to apply our playbook to the business and believe there are opportunities to drive further productivity, product mix and realized even more potential synergies. We are confident that we can significantly reduce the gap to peer averages by 2019.

Next is cash flow. Our discipline and focus on cash has been another key foundational element for the business, and we expect to continue on that path. To that end, our priorities will not change. After meeting key obligations, we remain committed to acquisitions as the top priority with a focus on reducing debt serving as an important enabler. Next is business investment to fuel productivity and profitable growth, such as we did with bringing in the Wish-Bone manufacturing in-house and capacity expansion projects we pursued for both Birds Eye and Gardein.

We do not have a share repurchase authorization from our board, but would consider one to offset share creep once we achieve leverage of about 3 times. To provide further cash generation, we see several important amplifiers. Improving our cash conversion cycle is a significant opportunity, by focusing on reducing inventory through improved integrated business planning and systems, a focus on cycle times and safety stocks as well as improving payables, we could have a material impact. For perspective, reducing our conversion cycle by just five days can drive approximately $30 million of additional cash.

In addition, creating a clear vision for our network going forward can help us make more informed choices on capital, and ensure we prioritize the highest returning investment. And although we don't control the interest rate environment, we will continue to manage our debt structure as we did this year with our refinancing to create downward pressure on interest cost.

Taken together, we believe this focus on expanding cash will strengthen value creation optionality for Pinnacle going forward.

The next opportunity is to accelerate profitable growth. With the addition of modest growth to the algorithm, we can better drive efficiencies and unlock further potential on the business. And we believe we're well positioned to do that. Our business has done a tremendous job driving share growth despite being in declining categories. But now as our portfolio shifts to over 50% of revenue in health and wellness, this creates additional potential. However, this will not be a chase growth at any cost plan.

We will have a disciplined approach to investing in growth and create a pay as we go model. Beyond health and wellness, we also have potential to even deepen our delivery of the fundamentals across the entire portfolio. With a focus on driving incremental clarity within this segmentation of our Leadership and Foundation Brands, and drive the same discipline that we utilize on financial planning on brand metrics. We believe we can better validate ROI on all of our investment spending to yield insights and create the potential to strengthen the core business.

And finally, we have the opportunity to broaden our channel coverage with over 80% of our business in traditional grocery and mass, we have significant space to expand coverage to channels that are growing three times to five times faster. Although not all of our portfolio will make sense everywhere, we do see opportunities in channels like dollar, club, organic natural and even e-commerce. And with that, we expect to drive top-line growth at or above our categories even as they improve.

As many of you know, health and wellness is the single biggest consumer trend affecting food purchases. But its definition can cover everything from weight management to organic, to clean ingredients. Focus is critical in unlocking an effective health and wellness strategy. As we look where growth is really happening in health and wellness, we'll focus on three leading trends.

First, almost a third of the population is choosing foods based on their lifestyle. This maybe managing disease or food intolerance or simply matching a lifestyle choice. Two of the fastest growing lifestyles, we have leading our strong positions in, plant-based vegetarian and gluten-free. In addition to lifestyle choice, one of the single biggest opportunities for people to improve their health is to increase the consumption of vegetables. With 9 out of 10 consumers in United States not getting enough vegetables and over 60% trying to eat more, this unique combination of deficiency and motivation sets up a very compelling opportunity for addressing a major consumer need.

Finally, the fastest growing and now most prominent health and wellness driver in food is clean and simple ingredients. With this broad trend not specific to any single category of brand, it enables us to be focused within our portfolio on where we see value-added or where it's most relevant for consumers. So our health and wellness plan will focus in these areas and we will lever our scale and differentiation to lead in these growing consumer spaces.

To that end, we've created three consumer driven strategies that are the foundation of the health and wellness plan. First, to take advantage of the growing lifestyle trend, it is important to have brands that can cross occasions and formats to truly create a destination for consumers that are living with specific dietary needs or choices.

On plant based, with Gardein and Earth Balance, we believe we can bring a unique combination that goes well beyond the veggie burger to really meet the broader need of these consumers and be a leader in the number one growing lifestyle trend.

Gluten-free, with the top two dedicated brands in Udi's and Glutino, we are already the clear leader. Although gluten-free may not sustain the 50% plus growth rate we've seen, it's expected to remain in double-digits, fueled by a growing awareness of celiacs or gluten intolerance, which affects roughly 18% of the U.S. population, as well as nearly one-third of consumers who are simply selecting in and out of gluten-free for broader health and wellness goals.

Finally, with EVOL, we have a great opportunity to expand our position in the clean convenience lifestyle. Millennials continue to live with time constraints, but still want to follow a cleaner ingredient food regimen. EVOL provides the solution that does not require to compromise on taste or experience.

The second strategy is vegetable ubiquity. The Birds Eye platform provides us an excellent opportunity to really drive the mission of helping people consume more vegetables. We're going to do this by eliminating the barriers to that. Those barriers include taste, availability and value. To drive this strategy, we plan to increase support behind the Birds Eye platforms, one of our highest ROI and margin businesses. Next will be to expand availability and affordability to include price size architecture, channel expansion and really fixing the mix to make sure all of our core SKUs are on shelf. Finally is the opportunity to continue to expand new occasions and segments like we did with Voila!

The third strategy and the one that we've already been driving is a better center of store. The goal here is not to make everything health and wellness, but to be selective in places where we can bring news and value to our brands and to the center of store.

We have great examples like E.V.O.O. where we have one of the highest percentages of extra virgin olive oil on the category or GMO-free Log Cabin syrup, one of my favorites, a simple and clean ingredient line for pie filling or pickles. And as I mentioned before, perfect size on Duncan Hines, which is a great fit with portion control. We will talk more about all three of these strategies in our investor meeting later in the year, but it is a big reason why we believe that accelerating profitable growth is well within our reach.

Next up is the opportunity to maintain our low cost structure, while focusing on building the capabilities that will be most critical to delivering our strategy. We have a tremendous foundation of capabilities on our team and business. As we look across the areas that will be critical to delivering this next chapter, we see opportunities to amplify our performance while maintaining our targeted SG&A level.

The great news is, the continuing to improve in some of these areas like planning will actually enable simplification and savings that can help make room for any area we might need to invest in.

Finally, part of this plan, it is critical that we protect the culture and capabilities in Boulder. The fact is, running a faster growth consumer-leading business is different than our core business today. This is why we recently hired Michael Allen, who knows how to run these types of business. Getting the right balance of synergy and integration paired with the focus and specific capabilities to ensure we are driving the Boulder business going forward is truly an amplifier for our playbook. And again, we will do this while maintaining our SG&A levels at 9%.

Finally, it's taking a great track record on M&A and increasing its potential. Again, it is our clear goal to have a great base plan that delivers terrific results and value and use M&A to accelerate results and further build scale. When we talk about increasing our M&A potential, one clear amplifier is to build off of the Boulder platform. We will not be creating a string of pearls model, but continuing to look for opportunities that can create value and scale, which is a nice combination with continuing to add more older iconic brands as well. In either case, we will not deviate from the disciplined decision criteria we have used historically. North America focus, adjacent categories, leading brands, synergy-rich value-creating transactions done quickly with a proven integration model.

Finally to help us manage this agenda, we will be hiring a VP of Corporate Development that reports to Craig. This adds depth and expertise to our team as we continue to look for great opportunities that can accelerate results as well as filling in key strategic needs. As we have demonstrated in the past, acquisitions will help us accelerate our margins and growth.

So again, our plan going forward builds upon proven areas and platforms within the Pinnacle playbook. And we will look to unlock even more value by amplifying all four of the key pillars.

Wrapping up, we expect to have another great year in 2016. Going forward, amplifying the playbook can create further meaningful value. The gross margin opportunity is significant. Health and wellness platform will help us grow profitably, strengthen capabilities to deliver the full potential and increased M&A to accelerate results. This will set up wonderfully the investor meeting we plan to have later in the year where we'll fill in much more of the detail. But I think this gives us a great blueprint for how we're going to create the next chapter of success of Pinnacle Foods. Thank you. And I think we've got time for a question.

QUESTION AND ANSWER SECTION

Andrew Lazar
Analyst, Barclays Capital, Inc.

Q

Thank you. Yeah. Let's try and sneak in one or two here, and then, we'll head over.

Mark A. Clouse
Chief Executive Officer & Director, Pinnacle Foods, Inc.

A

Okay.

Andrew Lazar
Analyst, Barclays Capital, Inc.

Q

I just want to drill down on the gross margin opportunity that you pointed to, because it's obviously pretty significant in terms of the gap there and your view that you can significantly narrow the gap. So I guess, three pieces of that. One would be of the four key areas that are going to drive that gross margin improvement, is there one that drives – that we should think of is driving more of that margin improvement than others, or are they all fairly equal?

Two would be maybe the cadence of how we see that gross margin play out from here through 2019, is it a very backend loaded plan or pretty even as we go through? And then, the thinking around reinvestment of that gross margin opportunity that comes through, does the bulk of that fall through/ Are there opportunities that you see based on what you'll talk more about later in the year to reinvest a lot of that? So those three pieces to the gross margin.

Mark A. Clouse
Chief Executive Officer & Director, Pinnacle Foods, Inc.

A

Okay. So, maybe, I'll take the first one. Craig, you can do the rhythm and we'll do the last one together. Okay. I think on the drivers for the gross margin and the amplifiers we highlighted today, there's actually meaningful contribution in all of them. And I'll certainly – in some cases, I like where we've already begun a great discipline, like our MVP approach to productivity and to mix.

The discipline is already there. We're just simply broadening our scope to bring a bigger percentage of the spend on the business to bear. I think that's one. Our harmonization, I think that one's a close second. And again as I said before, as you might imagine, now that we've gone through several acquisitions, the ability to step back a little bit and really look where we can drive scale and synergy across the portfolio is a big opportunity.

We talked a little bit about logistics today, that's one that's very obvious. But there is also a significant list of places by just bringing to bear the full Pinnacle way to what we're doing, we're going to create opportunities. And I think as we've talked about quite a bit, we continue to see terrific opportunity on Boulder, is as confident as we are in the synergies that are there, as we start to run this business and we really bring that fully into the Pinnacle playbook, I continue to see opportunity.

So I'm not sure I pointed the one significantly more than the other, but I think they all have a meaningful contribution over the next several years ahead. Craig, maybe talk a little bit about the pacing.

Craig D. Steeneck
Chief Financial Officer & Executive Vice President, Pinnacle Foods, Inc.

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Yeah. In terms of the cadence, Andrew, I mean 2017 is going to be an outsized improvement in the overall margin because we're going to get the second year of the synergy benefits on Boulder. I think exclusive of that, it's probably fairly evenly paced year-by-year out for 2019. And there will be some investment back in the business, particularly behind smart and profitable innovation probably led by Birds Eye.

Andrew Lazar
Analyst, Barclays Capital, Inc.

All right. Why don't we do this, let's take it over to the breakout and please join me in thanking Pinnacle for being here today.

Mark A. Clouse
Chief Executive Officer & Director, Pinnacle Foods, Inc.

Thanks, guys.