THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

PF - Q3 2013 Pinnacle Foods Inc. Earnings Conference Call

EVENT DATE/TIME: NOVEMBER 13, 2013 / 02:30PM GMT

CORPORATE PARTICIPANTS

Maria Sceppaguercio *Pinnacle Foods Inc. - SVP, IR*

Bob Gamgort *Pinnacle Foods Inc. - CEO*

Craig Steeneck *Pinnacle Foods Inc. - EVP & CFO*

CONFERENCE CALL PARTICIPANTS

Farha Aslam *Stephens Inc. - Analyst*

Andrew Lazar *Barclays Capital - Analyst*

Matthew Grainger *Morgan Stanley - Analyst*

Jason English *Goldman Sachs - Analyst*

Bryan Spillane *BofA Merrill Lynch - Analyst*

Robert Moskow *Credit Suisse - Analyst*

Chris Growe *Stifel Nicolaus & Company - Analyst*

Ken Zaslow *BMO Capital Markets - Analyst*

PRESENTATION

Operator

Good morning, ladies and gentlemen, and thank you for standing by. Welcome to the Pinnacle Foods Incorporated earnings call for the third quarter ended September 29, 2013. This conference is being recorded, and there will be a question and answer session at the end of the call.

I would like to introduce your host for today's conference, Pinnacle's Senior Vice President of Investor Relations, Ms. Maria Sceppaguercio. Ms. Sceppaguercio, please go ahead.

Maria Sceppaguercio - ***Pinnacle Foods Inc. - SVP, IR***

Thank you, Karen, and good morning, everyone, and thanks for joining us today.

Here with me to discuss our results for the quarter and our updated outlook for the year are Pinnacle's CEO, Bob Gamgort, and our CFO, Craig Steeneck.

Earlier this morning, we issued our press release for the third quarter of 2013. If you haven't received a copy of the release, you can get one on our website at www.pinnaclefoods.com.

As you know, we completed our IPO and subsequent refinancing in the second quarter this year. As a result, our GAAP financial results for the third quarter include the benefits of both transactions, while our year-to-date results also include the one-time expenses associated with both events.

To help you understand how the IPO and refinancing impact our results in 2013, we have provided in our press release and will discuss here this morning our third-quarter results and our outlook for the year on an adjusted pro forma basis. You will recall that this is the same approach we used for the last two quarters. This adjusted pro forma basis assumes that the IPO occurred on the first day of 2012 and that the refinancing occurred on the first day of 2013 and excludes IPO and refinancing expenses, restructuring-related and other items and non-cash stock-based compensation expense, which we collectively refer to as items affecting comparability. The Company believes that the adjusted pro forma 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 it is the most meaningful comparison and the most appropriate basis for discussion of our performance. Details of the included items are included in the reconciliation tables included in our press release and are discussed in detail in our 10-Q, which will be filed later today.

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

Finally, on October 1, we closed the Wish-Bone acquisition. As you know, October 1 occurs in early Q4 for us, so results of Wish-Bone are not included in the third-quarter report we issued this morning. Our outlook for the accretion we expect from Wish-Bone remains unchanged, and we expect a modest benefit in the fourth quarter this year, as previously disclosed. Craig will provide more detail on this a little later in the call.

Before turning the call over to Bob, I would 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 will hand it over to Bob.

Bob Gamgort *- Pinnacle Foods Inc. - CEO*

Thanks, Maria, and thanks to everyone for joining us today.

As we indicated in our release, the third quarter was a good one for us. We grew our North American Retail sales by 2%, outperforming the composite of our categories as measured by IRI. We expanded our gross margin considerably and delivered a 38% increase in pro forma diluted EPS to $0.36, and we invested in our portfolio by introducing key new products and by supporting existing growth platforms.

Importantly, we delivered these results in an environment that continues to be challenging by executing the strategy discussed with you during the IPO, namely, investing in our Leadership Brands, driving gross margin improvement through mix and strong productivity programs and using a portion of that expanded margin to invest in our portfolio to remain competitive and generating strong free cash flow. On our previous calls with you, we identified the likelihood that the competitive dynamics in the second half of this year would intensify as slow industry growth combined with improved input costs would create the incentive for increased industry promotion. Our updated full-year guidance provided last quarter reflected our plan to use the strength of our first-half performance to reinvest in our portfolio in the second half to ensure that we continue to win, despite the increased competitive pressures.

This is exactly what transpired during the quarter. Our North American Retail business registered sales growth of approximately 2% in the quarter. This was driven by a 4% net sales increase in our Duncan Hines Grocery division, which reflected growth across the Leadership Brands, particularly Vlasic. Also contributing to the net sales increase during the quarter was growth in the Birds Eye Frozen division Leadership Brand, including Birds Eye Vegetables, which we identified as the priority on previous calls.

In the latest period, we grew consumption and gained share across our frozen portfolio, including on Birds Eye Vegetables, reversing the negative trend earlier in the year. During the quarter, we launched a second year of our breakthrough campaign to engage and encourage kids to eat more vegetables through our tie-ins with Nickelodeon and The Partnership for a Healthier America.

In addition, we have been gaining significant share all year on our Birds Eye Voila! complete bag meals, and this trend continued in the third quarter.

Consistent with our discussion with you last quarter, we increased our investment spending and strengthened our retail programs for several businesses to position them for success in the important holiday season. Our net sales results in the third quarter reflect this incremental activity, as well as the benefit of several new products.

Specifically during the quarter, we rolled out Birds Eye Recipe Ready, a new 20-item line of pre-chopped and blended vegetables designed to enable faster preparation of the top main meal dishes served in America such as stir fry, fajitas and pot pie. When combined with the protein and a few simple ingredients, Birds Eye Recipe Ready makes a family meal in less than 30 minutes for approximately $10 with no waste. Recipe Ready is off to a good start and has already achieved 50% ACV distribution.

In the fourth quarter, we are investing in consumer marketing behind this line to increase awareness and to drive trial.

We also continued our investment in Birds Eye Chefs Favorites lines with the introduction of two new cheese sauce varieties and an integrated marketing campaign, including TV, which is delivering growth in base velocities. This campaign is also driving a halo benefit across all segments of the Birds Eye brand.

Turning to the Duncan Hines division, we continue to capitalize on the consumer need for flavor variety and seasonal execution. For this holiday season, we introduced a new limited edition Duncan Hines Decadent Pumpkin Spice cupcake variety, which builds on the success of our Red Velvet cupcake kit introduced in 2012, as well as our Strawberry Cheesecake and Chocolate Lovers varieties we introduced in Q2 of this year.

The Decadent line continues to do well in the market and gain share. We also added a new Limited Edition Holiday Velvet seasonal cake mix, as well as two new flavors to our Frosting Creations line.

As we discussed with you last quarter, we increased our support behind our Duncan Hines business, which, like Birds Eye, we called out as another priority brand for the second half of this year. While we still have work to do, we have begun to see sequential improvement in our overall share heading into the holiday season and are confident in our programs for the fourth quarter.

On Vlasic, we expanded our Farmer's Garden line during the quarter with a new retail variety and a club channel SKU. We also increased investment behind Farmer's Garden with a highly effective print campaign and in-store support to build awareness and trial for this premium product. Farmer's Garden has proved to be highly incremental to Vlasic, helping the Vlasic brand gain share.

In addition to growing sales in line with our categories, our long-term growth algorithm calls for the delivery of strong productivity and high free cash flow conversion. For the third quarter, despite category headwinds, we achieved double-digit earnings growth through continued strong productivity, enhanced product mix and significantly lower interest expense.

We also generated strong free cash flow and continue to leverage our lean and efficient overhead structure, which is serving us well in a low growth industry.

For the quarter, strong productivity savings and favorable mix more than offset input cost inflation, resulting in a 220 basis point improvement in our gross margin. This will continue to provide a critical source of brand investment as we head into the fourth quarter, which is shaping up to be very competitive. Again, we anticipated this dynamic early in the year and are confident we have the right program in place to win during the quarter.

Finally, as Maria mentioned, we officially closed the Wish-Bone acquisition on October 1, and the integration of this business into the Pinnacle portfolio is well underway. We are excited to add this iconic brand to our Company and expect it to enhance not only our margin structure, but also our ability to offer consumers meal solutions and recipe ideas across our broad portfolio. We look forward to updating you on our progress to reinvigorate this iconic brand.

With that, let me now hand it over to Craig, who will take you through the financial details of the quarter.

Craig Steeneck *- Pinnacle Foods Inc. - EVP & CFO*

Thanks, Bob, and good morning, everyone.

Starting with sales, our consolidated net sales increased 0.8% in the third quarter to $572.5 million. Driving this performance was our North America Retail business, which registered net sales growth of 2% in the quarter, almost entirely due to a 2.1% increase in volume/mix.

Partially offsetting this growth was a 6% net sales decline in our Specialty segment due to planned lower sales of private label canned meat.

Turning to gross profit, we continue to deliver very strong results. As Bob mentioned, our gross margin for the quarter, excluding items, expanded by 220 basis points to 27.4%. This growth reflected favorable product mix and very strong productivity results, which collectively more than offset input cost inflation. Also contributing to gross profit in the current quarter was an expected insurance recovery of rehabilitation expenses incurred in 2012 related to last year's voluntary Aunt Jemima product recall.

Turning to productivity, our focus in this area has served us well this year. You will recall that our strategy to drive productivity is primarily to offset inflation over time. However, when productivity is high and inflation is more moderate, productivity also enables us to generate some margin expansion.

During the IPO process, we discussed our objective to deliver total productivity savings in the 3% to 4% of COPS range annually, which we have been successful in doing since 2009.

In 2013 we now expect our productivity to come in at the top end of our 3% to 4% range with the second half of the year now expected to be stronger than the first half, which, you will recall, is the same pattern we experienced in 2012. For the third quarter of this year, our total productivity savings were particularly strong at 4.6% of cost of products sold.

Turning to input cost inflation, we continue to expect inflation to be at about the midpoint of the 2% to 3% range we shared with you earlier this year with second-half inflation higher than the first half due to the timing of the costs flowing through our P&L. In the third quarter, input cost inflation totaled about 3%.

Our strong productivity results during the quarter, along with favorable product mix, enabled us to more than offset inflation, fund incremental investment in our Leadership Brands and drive margin expansion. Adjusted EBITDA increased 11% to $107.9 million in the quarter compared to $97.2 million in Q3 last year, primarily reflecting the strong growth in gross profit.

Interest expense for the quarter declined 34% to $19.3 million, primarily reflecting the benefits of the IPO-related debt paydown and our subsequent refinancing. Last quarter we entered into interest rate swaps that fixed over 80% of our pre-Wish-Bone debt through 2020. We did this when interest rates were very attractive, and we locked in rates that are significantly favorable to the current LIBOR curve. This action has eliminated the risk of rising interest rates on our floating-rate interest expense, which you will remember are LIBOR-based.

We have also recently taken similar action on the new debt we incurred for Wish-Bone. All-in, the cost of these interest rate swaps in 2013 and 2014 is de minimis.

Our total interest expense for 2014 is estimated to be approximately $100 million for the year, which for perspective compares to $180 million in interest expense we incurred in 2012.

Adjusted pro forma net earnings increased to $42.4 million or $0.36 per diluted share in the third quarter compared to $30.5 million or $0.26 per diluted share in Q3 last year. This performance reflected the improvement in gross profit and a significant reduction in interest expense, partially offset by increased investment behind our Leadership Brands and higher administrative expenses related to building some internal capabilities associated with being a public company.

In terms of our outlook for the remainder of this year, we now expect EPS to be at the high-end of our previous guidance range of $1.53 to $1.57 for the full year.

The EPS guidance continues to incorporate $0.01 to $0.02 of accretion for Wish-Bone and a diluted weighted average share count for the year of 116.5 million shares. It also reflects the unfavorable comparison for the year and more significantly the fourth quarter of the 53rd week in 2012, which added approximately $25 million in net sales and $5.5 billion to EBITDA to last year's fourth quarter.

Before turning to cash flow, while we are not providing 2014 guidance today, I want to share our thinking on a couple of important metrics that we believe will be helpful to you as you begin to think about next year.

On productivity, we are targeting total savings in the 3% to 4% of COPS range, consistent with the performance we have delivered over the past several years. We expect to have 100% of our 2014 targeted savings identified before the end of this year.

In terms of inflation for 2014, as you know, the outlook calls for some commodities to be deflationary. At the same time, we expect some inflation in conversion and logistics costs.

All-in, we are currently expecting to average about 2% inflation in 2014 with the first half higher than the second half, given the higher-cost inventory from this year that will flow through the P&L early next year.

Now on to cash flow. Cash flow from operations totaled $142 million in the first nine months compared to $62 million in the same period last year. This improvement is largely driven by the increase in earnings and an improved inventory position versus year ago. Capital expenditures for the first nine months of 2013 were $63 million. For the year, we continue to expect $80 million to $90 million of capital, and we are not anticipating any meaningful capital requirements for Wish-Bone this year.

As previously disclosed, the majority of the estimated $40 million to $50 million of Wish-Bone CapEx to integrate manufacturing into our existing Pinnacle facility is expected to occur in 2014.

Turning to debt, at the end of the quarter, our debt totaled $1.88 billion, including our $1.63 billion term loan, due 2020, and $350 million in 4.875% senior notes due 2021 and cash on hand of $110 million.

During the quarter, we had no outstanding revolver borrowings. And on a pro forma basis for the IPO and refinancing, our net leverage at the end of Q3 was 4.12 times.

As you know, in October we added a new term loan to finance, along with cash on hand, the Wish-Bone acquisition. The new debt consists of a $525 million term loan, due 2020, with terms and pricing consistent with our existing term loan. Our net leverage at the end of Q3, pro forma for the Wish-Bone acquisition, was 4.75 times.

Finally, on Wish-Bone. We are about six weeks into the transition of the business from Unilever, and this transition is going smoothly. As we discussed last quarter, Unilever is providing management support services for us for the fourth quarter. We will assume full management of the business beginning January 1.

In addition, as previously communicated, Unilever will continue to manufacture the Wish-Bone product for us until we begin production in-house in early 2015.

With that, I will turn the call back over to Bob.

Bob Gamgort - ***Pinnacle Foods Inc. - CEO***

Thanks, Craig. Before opening up the call to your questions, I would like to leave you with a few thoughts.

We delivered another strong quarter of earnings growth and continue to outperform the composite of our categories, delivering 2% net sales growth in our North American Retail business.

As we have discussed with you throughout the year, we built a plan that enables us to use strong productivity and product mix to reinvest in our brands in order to address industry challenges. We are pleased with the outcome of that strategy.

Finally, with Wish-Bone now under our roof, we are excited to increase shareholder value through a successful integration and reinvigoration of this iconic brand.

With that, let's open it up to your questions.

QUESTION AND ANSWER

Operator

(Operator Instructions). Farha Aslam, Stephens Incorporated.

Farha Aslam - ***Stephens Inc. - Analyst***

My question focuses on Duncan Hines as we go into the fall bake period. Could you just share with us how you are going to market differently this year versus last year and your confidence in your fall bake program?

Bob Gamgort - ***Pinnacle Foods Inc. - CEO***

Sure. I think the first point is making sure that we've got the right promotional programs in place and our price points at a competitive level because the fall bake timeframe -- the holiday timeframe from a retailer standpoint is one that they see a huge gain in traffic; it's a big profit generator for them; and they use the baking category primarily as a traffic draw to get people into their stores. So being able to secure the right features and displays and making sure that you have the right price points is absolutely critical during this time period.

I think the second element of that strategy is making sure that when consumers come into the store, they see something new that helps drive an incremental or an impulse purchase. And we have introduced a number of seasonal varieties this year that have done remarkably well, and I think it really does speak to an opportunity for us for the future.

Around the Thanksgiving timeframe or prior to the Thanksgiving timeframe, we introduced the Decadent Pumpkin Spice cupcakes, and they have exceeded all expectations. In fact, at some of our very largest retailers, we sold out well before Thanksgiving. So it's suggested that that's a big opportunity for the future.

We also introduced Holiday Velvet, which is a really unique item. It's a mixed cake of red and green, and it builds on the Decadent and the Velvets line that we have done really well. So it's a combination of securing the best features features of displays; having something unique in addition to our core items, which we have done very well; and then the last part of it is we really dialed up our marketing on the digital end with Duncan Hines. We found that the highest payback in this category comes from optimized search, as well as having the right digital marketing campaign versus a more traditional campaign, and we have really focused that on all the opportunities around the holiday season.

So we have some challenges in the first part of the year on share, as we talked about throughout the conversations with you over this past year, that we were really gearing up for a good second half of the year. That is exactly what is happening right now, and the sequential share improvement that we are seeing, I think, is evidence of that.

Farha Aslam - *Stephens Inc. - Analyst*

That's helpful. And just on the gross margin line, what kind of improvement can we see year over year in the fourth quarter and then looking out into 2014? Do you anticipate us having roughly that 100 to 200 basis point improvement that you have been delivering to continue into 2014?

Craig Steeneck - *Pinnacle Foods Inc. - EVP & CFO*

On the gross margin, to date, as we have talked about, we have generated 220 basis points of gross margin improvement in the third quarter, and on a year-to-date basis, we are about 240 basis points. That obviously, as you know, has to do with the productivity and inflation relationship where we have had very strong productivity, the highest level at 4.6% in the third quarter, and lower inflation in the first half. The inflation and productivity equation for Q4 will be much more in balance than we have seen so far this year. So you will not see as much gross margin expansion in Q4 as you have seen to date.

And then as we look forward to 2014, our current view on productivity is that will be in the 3% to 4% range, like we have been consistently generating over the last couple of years, the last two years being on the top end of that range, mostly due to the plant consolidations, and we see inflation at roughly about 2%. So you will see some margin expansion as a result of that equation.

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

Yes, the only part we don't know, obviously, is, when you are looking forward is, how much of that expansion do you get from productivity exceeding inflation needs to be invested back into the business? So it's too early to call how much of that is going on. Clearly, we've talked about throughout the year we needed to do that in the third quarter and even more so in the fourth quarter, given the holiday peak seasonality.

Farha Aslam - *Stephens Inc. - Analyst*

Thanks. Great execution. Appreciate it.

Operator

Andrew Lazar, Barclays.

Andrew Lazar - *Barclays Capital - Analyst*

Bob and Craig, it seems like obviously the gross margin expansion in the quarter was beyond what we and I assume most were looking for. I assume it still was, even when we exclude any benefit that was in there from the insurance element, but about how much did the insurance settlement help gross margin expansion year over year?

Craig Steeneck - ***Pinnacle Foods Inc. - EVP & CFO***

So Andrew, as we said, 220 basis points of improvement in the quarter. Over half of that was from the productivity and inflation equation. As we said, 4.6% productivity, 3% inflation. So that generated more than half of it. The insurance reimbursement was about 40 basis points and then the residual piece coming from mix improvement.

Andrew Lazar - ***Barclays Capital - Analyst***

That's helpful. And then we talked about the competitive environment ramping up further in the fourth quarter. Is that always the way you expected the second half to play out, given seasonality and such, or was there even a change as the quarter transpired about how you think about the competitive environment in the fourth quarter, and where do you think it is most intense?

Bob Gamgort - ***Pinnacle Foods Inc. - CEO***

Yes, I think this is shaping up to be very much the way that we suggested it would when we talked to you all way back to the first quarter and then confirmed that again in the second-quarter call. Anytime you have got an environment where the industry top lines are challenged, you see a more favorable input cost environment, and you are heading into the fourth quarter, which is the peak from a volume standpoint, so if there have been some misses, it's an opportunity for the industry, both on the manufacturer and the retailer side, to try to make up some ground. I think that's a recipe for increased promotion.

And so I think the good news is we planned for it; we put our promotion programs in place. You see that in the third quarter. You will see more of that in the fourth quarter in terms of where we had to invest. And as you are seeing the latest Nielsen and IRI reports that you guys have written on, it really is coming out to be that way where you are seeing continued challenges on the topline combined with more volume sold on deal and even some resurgence in private label as they have been more aggressive on their price points. We have been very, very tactical in making sure that we got our price points right. In some cases, it's making sure that we don't get out of line with private label. In other cases, it's making sure that we secure the right promotion programs.

So on balance, it's significantly more aggressive than what we are seeing in the fourth quarter, but it's exactly what we expected it to be.

Andrew Lazar - ***Barclays Capital - Analyst***

And last thing would be it seems like you are starting to have some pretty good visibility into next year around the cost of productivity sort of balance. I guess the tougher piece, of course, is going to be the volume/sort of price combination.

For planning purposes, just given how we have seen some of the key categories behave, how even preliminarily are you starting to think about this? Does it assume category growth at this stage going into 2014 is still likely going to be pretty muted, if at all? And then the key swing factor, I guess, becomes, does price remain flattish or, because you have a little bit of inflation, does that keep people more rational, or is price for planning purposes going to be down a bit at the end of the day next year when you take into account promotional activity and such? Just trying to get your -- realizing it's very preliminary.

Bob Gamgort - ***Pinnacle Foods Inc. - CEO***

Yes, I think the short answers we are predicting more of the same for 2014. And what has served us really well is not planning in any of our operating plans -- last year, next year -- for any material rebound in the economy and in the industry.

Now, if that happens, it presents an upside for us. But the way that we look at 2014 is the continuation of the trends that we see right now. The good news of that is, as Craig talked about, we are still looking at productivity significantly exceeding inflation.

We also have the benefit of mix both in terms of our Leadership Brands growing faster than our Foundation Brands, as well as margin-accretive innovation. And as I said on the previous question, the only piece that we can't accurately predict right now is how much of that needs to be invested back in price. But we will manage it the way that we did this year, which is that we built up a reserve, and we are ready to spend back if it's required. If not, it gives us an alternative to either invest that more on the consumer side of our business, accelerate the launch of some new products or even drop it to the bottom line. But I think we are taking a very cautious approach next year, and I think the benefit of the business model that we created with the high levels of productivity and the really lean infrastructure and overhead costs that we have is we can do well in a really challenged environment, especially when we see an inflation-productivity relationship like we are looking at.

Operator

Matthew Grainger, Morgan Stanley.

Matthew Grainger *- Morgan Stanley - Analyst*

Bob, there seems to be a fair amount of volatility or upheaval, I guess, in the Frozen section at the moment, and you have managed through it pretty well, I think. But on a category level, I just wanted to get your thoughts on how retailers are thinking about the category. And as we hear all of the news about competitors making decisions to manage their portfolios and promotional allocations differently, what does this mean for the category and for your business?

Bob Gamgort *- Pinnacle Foods Inc. - CEO*

Yes. A critically important category for retailers, a lot of infrastructure investment in there and a lot of space dedicated to it. And when you take a look at sources of profitability in the retail store, it's a very, very high generator of profit. There's a lot of conversation about the perimeter of the store. The perimeter of the store is really driving the traffic. But, let's be clear, the center of the store and especially frozen is driving the profitability. So they need it.

And as you know, there has been some articles written about there's some joint work between retailers and manufacturers on making sure that there is an investment to create consumer awareness and a resurgence in frozen.

Having said that, and I've said this before, frozen is a temperature class, and it's not a category. It's made up of a bunch of different categories with dramatically different performance based on a consumer standpoint.

We are fortunate in that 65% of our frozen portfolio is driven by Birds Eye Vegetables and Birds Eye Voila!, two very on-trend categories. Vegetables has been consistently growing, and we were not happy with the fact that we were losing some share in the first half of the year. As you can see in the recent share period, we are gaining share. Birds Eye Voila! has performed incredibly well in a category that has not done well. So we are not only getting share growth, we are getting absolute growth in both consumption and shipments, and we've got a great pipeline of innovation on that.

So I think there are a lot of challenges in frozen. Most of that, though, is in the single-serve frozen entree category. And if you think about the competitors who report publicly and who talk about this, most of them have a more concentrated position in single-serve frozen entrees, which has had a long-term challenge.

It's a relatively small part of our portfolio, represented only by Hungry-Man, which has a really unique positioning that has had a very stable share over a long period of time, and it's not one that is really the driver of our portfolio.

So we are happy with the growth that we are seeing, and particularly in frozen vegetables, we think there's a lot of upside to it. And it's a good place to be from a retailer standpoint because retailers are looking across frozen for an answer, and they see pockets of growth in vegetables, in seafood. And we've got good positions in them. And so that will lead to more investment in those categories from a retailer's standpoint.

Matthew Grainger *- Morgan Stanley - Analyst*

Okay. That's helpful. Thanks. I also wanted to get your thoughts on the reduction in SNAP benefits that just went through. I know it's difficult to predict, but when you look at that in the context of broader consumer spending, how material of an impact do you think it could have on broader food consumption? Is there anything you can tell us about your relative exposure to categories where those benefits are utilized?

Bob Gamgort - ***Pinnacle Foods Inc. - CEO***

Well, we can add the SNAP benefit reduction to a list of many things that are causing pressure on the consumer right now, including unemployment being the biggest piece of this, the government shutdown. If you take a look at the latest consumer sentiment numbers, for November they are the lowest they have been since December of 2011, which to me is ultimate indicator of how the consumer is feeling based on all of this stuff.

Our calculation is consistent with the industry that represents about 1% of spending, which when you are growing 3% to 4% as an industry is not that material. When you have a more challenged growth line, 1% is more material.

We've got a huge -- we've got a broad reach in our portfolio, so our exposure to it is about average. We've had categories that are better or worse. But if you look at our total portfolio, we have got about average exposure to it.

I think that when you look at it from a consumer pressure standpoint, the only potential offset to that pressure right now is the reduction in fuel prices. We haven't done the calculations to see if the drop in fuel prices is enough to offset the reduction of benefits.

But there is more challenging news than there is good news in this environment right now, and that's why we keep planning more of the same for 2014, but, still, develop a plan that can deliver great return to our shareholders despite all of it.

Operator

Jason English, Goldman Sachs.

Jason English - ***Goldman Sachs - Analyst***

A couple of questions. First, on Wish-Bone, I know it's not too long ago that you had the conference call on it, and you have barely owned it. But based on what you know today versus what you knew then, has anything changed? Do you still think you can get to $65 million of run rate EBITDA in a couple of years?

Bob Gamgort - ***Pinnacle Foods Inc. - CEO***

We absolutely do. We see nothing but -- everything in this integration right now has gone very much on the plan that we put together in advance, and the integration has gone well. So we've got line of sight to that $65 million.

Jason English - ***Goldman Sachs - Analyst***

When do you plan on insourcing the production?

Craig Steeneck - ***Pinnacle Foods Inc. - EVP & CFO***

As we said on the conference call, Jason, the plan is we are operating under the Wish-Bone systems or the Unilever systems at the moment through the end of this quarter. Then we will take over full management effective January 1 of 2014. We will insource the production into an existing Pinnacle facility by the first quarter of 2015, and that is where the majority of the synergy benefits will start flowing through. And in order to get that, we have to spend $40 million to $50 million of CapEx, which will mostly occur in 2014.

Jason English - ***Goldman Sachs - Analyst***

Thanks for that, Craig. Sorry, it sounds like I missed that in the prepared remarks. Last question, I guess, sort of what's next? Based on what you are seeing in terms of the books out there, the number of assets being shopped and then your own period of digesting Wish-Bone, when do you think it's reasonable to believe that you will be back out and active in the M&A market?

THOMSON REUTERS

Bob Gamgort *- Pinnacle Foods Inc. - CEO*

We are active in it right now. I mean the integration that we've talked about -- we put the same team in place that we had on the Birds Eye acquisition, and that's going along really well. And if you think about it, you don't ever take any integration lightly, but it's $200 million of sales if we are building into our much larger portfolio than that. So we have got a line of sight to really everything that we need to do in terms of the marketing plans, integrating it into our sales organization, and then, more importantly, from a synergy generation standpoint, starting up this new facility.

So that -- we've got the right teams in place, and we haven't slowed down at all in terms of looking at opportunities. So it's really dependent on which assets will be available and/or which assets we can free up by continuing to be proactive with a number of the strategics out there to try to free up some of the items in their portfolio, whether it's through a straight-up acquisition or something that is more creative or tax-advantaged like an RMT, but we have never slowed down.

Operator

Bryan Spillane, Bank of America Merrill Lynch.

Bryan Spillane *- BofA Merrill Lynch - Analyst*

First question, just related to some of the information you gave in terms of the outlook for 2014, is the productivity and, I guess, the net inflation -- does that include Wish-Bone, or is that sort of base business before Wish-Bone?

Craig Steeneck *- Pinnacle Foods Inc. - EVP & CFO*

It is a fairly broad range, Bryan, as you look at the productivity at 3% to 4%. So yes, there are some synergy benefits that come through Wish-Bone, and there will be some productivity generated there. But a lot of that benefit will flow through the P&L in 2015 once we do the insourcing of that operation. So the 3% and 4% includes Wish-Bone.

Bryan Spillane *- BofA Merrill Lynch - Analyst*

Okay. And the 2% COGS inflation is also -- incorporates Wish-Bone as well?

Craig Steeneck *- Pinnacle Foods Inc. - EVP & CFO*

That is correct. And important on that, as we've said, is the commodity piece of that has deflation. But we are seeing inflation in terms of our conversion costs that are planned and logistics for lane rates and fuel, even though it's down, has some inflation in it. And importantly, the flow through of that in our P&L is you will see higher inflation in the first six months and lower in the second six months.

Bob Gamgort *- Pinnacle Foods Inc. - CEO*

I think when you think about productivity going forward, the big impact on synergies, as we talked about, is going to be when we start up that new plant facility. That's not going to happen in 2014, but we will have a chance to talk to you about that in advance.

Bryan Spillane *- BofA Merrill Lynch - Analyst*

Okay. And then along that same theme, as you are realizing some more moderate COGS inflation and with the promotional environment being what it is, what is your sense on just how retailers are looking or are they looking at your P&L and recognizing that you've got some flexibility? Is that causing them to want to encourage you to be more involved in promotional activity? I'm just trying to get a sense for whether retailers are looking to take advantage of manufacturers, moderation and COGS inflation? And then, second to that, what happens to the industry when we go back through a period of inflation again? Could you just talk a bit about that?

Bob Gamgort - ***Pinnacle Foods Inc. - CEO***

Yes. I think the retailers aren't coming at it from exactly the way that you are talking about. They are really open for business right now. They are looking for people who are willing to come and help drive foot traffic and help trade people off in terms of the average size of their basket.

It's not a who can afford this more than the other person. Because, although we are having good growth in gross margin, but part of the competition we have with you on the IPO was the opportunity for us is we start from a lower gross margin average than our peer set. That's why we always believe that we had tremendous upside.

So there's the absolute amount, and then there's the relative amount of change going on. We don't really get in those conversations. It's really who is willing to partner with me -- and it's not always price -- to help drive the category. That's who wins the game right now. And I think that one of the advantages that we have is not only to be able to have the reserve to be able to invest back in our brands, whether it's advertising, shopper marketing, coupons or trade. We also have the speed and the flexibility advantages. One of the secondary benefits of being a lean organization is to be able to move really quickly and be responsive, and I think we are winning a lot of these ties because we are able to be more responsive in this environment. That's really what is going on in the marketplace right now.

Bryan Spillane - ***BofA Merrill Lynch - Analyst***

Thanks for that and then just one last question. It seems more and more that we are hearing -- that consumers are really making more decisions at the point-of-sale as opposed to responding to advertising and marketing. And Pinnacle has -- you have increased your presence in store. Can you talk a little bit about just how you feel about some of the -- where you stand in terms of your sales force, sales organizations, some of your in-store presence and what the return has been on that, and do you envision maybe doing more in store?

Bob Gamgort - ***Pinnacle Foods Inc. - CEO***

We have had a long-term partnership with Acosta, who originally, when Pinnacle was significantly smaller, did really everything, headquarter and retail coverage, and we are really a top client of Acosta, and it has been a good relationship.

Over the past couple of years, as we talk to you guys about, we've brought in-house responsibility for headquarter sales representing more than half of our portfolio. And that was largely driven by a request from our retail partners, who said you are now a much more significant portion of my sales and profit. We are a top five frozen company. We would like to have a more direct relationship with you.

We've also built our internal capabilities about trade management, shopper marketing, category leadership. And so that's part of the evolution of this Company in building a much better company. And so that's where we stand right now.

So you are looking at more than half of headquarter sales represented directly by Pinnacle, the remainder handled by Acosta, and then all of retail sales handled by Acosta. And I think we are getting a very good return on that investment, and it's a win-win for both us and Acosta. We constantly are calibrating on that to make sure that we've got the right tools in place to make that salesforce more effective, and I am excited about the capabilities that we are building internally, which makes our field sales coverage even more targeted and strategic.

Operator

Robert Moskow, Credit Suisse.

Robert Moskow - ***Credit Suisse - Analyst***

Hi, thanks for the question. Strong quarter. I wanted to ask about pickles. I've seen some of the press release and your comments that that was a real driver of your shipments year over year. I didn't see that kind of consumption take away in the Nielsen data, and maybe pickles ends up in some alternative channels, I think. And I wanted to know if you have found that to be the case or if your IRI data is telling you something different.

Bob Gamgort *- Pinnacle Foods Inc. - CEO*

Yes. I think, first of all, if you take a look at year-to-date and through the third quarter, we have been gaining share on pickles across that longer timeframe. I think you are referencing the most recent four-week period where there was some decline in pickles share. We don't like to see a negative in front of any number, but I think we have to take a look at it over a longer period of time. So there's nothing in that that is cause for concern, other than maybe some different timing on promotions or some events versus year ago.

But importantly, this is a category that's a leadership category for us. It's very profitable. We have driven some nice innovation behind that with Farmer's Garden. We have grown share in the third quarter, as well as on a year-to-date basis.

The shipment piece is interesting because there has been a disconnect in the comparison to year ago on shipments versus consumption. Consumption has been steady. Shipments in the year ago period were really light in the third quarter, and it had to do with one of our large retailers taking a substantial buy at the end of the second quarter, which meant that we had good consumption in the third quarter of a year ago but little shipments. Now we are comparing against that.

So we have consumption exercises for every one of our brands. When we look at it over the year, consumption and shipments are matching up pretty well, but you see some strange timing on the third quarter versus the second quarter. And that's the disconnect you are probably talking about.

Robert Moskow *- Credit Suisse - Analyst*

Can I ask a follow-up, Bob? I was interested in your comments about frozen and how your portfolio is different from the segments of the category that are declining. It's a lot of, like you say, the struggling parts are a lot of single-serve entrees. I wanted to know if, as you look at the grocery industry in general, you see that declining trend not just in frozen but also in shelf stable. And I want to know your thoughts on, is this an economics kind of issue where people are less willing to pay a premium for convenience just to have one meal for themselves, and how does that roll into your M&A strategy?

Bob Gamgort *- Pinnacle Foods Inc. - CEO*

Are you talking specifically about single-serve entrees?

Robert Moskow *- Credit Suisse - Analyst*

Yes, like single-serve frozen and then microwavable single-serve and even canned soup. I just find that the last few years have been particularly weak for those types of items. From a consumer standpoint, do you think that that's a trend that will probably continue because you are paying for the convenience rather than the food?

Bob Gamgort *- Pinnacle Foods Inc. - CEO*

Right. I think you have three trends that are working in there. I think the first is there is an economic issue here, which is these are more premium on a per-serving basis. It's a more premium price point than making it yourself or going to some more components. And clearly, with all of the consumer pressures that we talked about here, that does weigh on this.

I think the second piece, too, is a need to reinvent and innovate in some of those formats. If you take a look at Birds Eye Voila!, we have had tremendous growth on that business over a long period of time, and we are offering meals for two. But it's in a skillet versus microwave format. It's a much better delivery from a taste standpoint and also from a nutritional standpoint.

So there's still a need for convenient meals. It's just they need to be contemporary in terms of the flavors they deliver and the health profile, and people have to feel good about cooking them as well. And I think the other factor that's going on in this whole space is really about the varieties that are being offered. There's just a tremendous amount of assortment in there, and there's a lot of confusion as well.

So I think that there's a chance to reinvent this category when you talk about M&A. I wouldn't rule that segment out, but we would have to know that we could really add value across the components that we just talked about.

Operator

Chris Growe, Stifel.

Chris Growe - ***Stifel Nicolaus & Company - Analyst***

Just two questions for you. The first one, I want to ask just a quick one in relation to Wish-Bone. As you think about the accretion coming through in the fourth quarter and you've obviously quantified that, are there any incremental or unique costs (inaudible) that are coming through this quarter as you absorb that business, or does it pretty directly come to the bottom line this quarter?

Craig Steeneck - ***Pinnacle Foods Inc. - EVP & CFO***

So for Q4, Chris, the 1% to 2% accretion obviously is before items affecting comparability. So there will be some charges that will run through the GAAP P&L, the cost to be able to execute the acquisition or the Wish-Bone financials, and then there's the accounting step-up of the inventory. All of that will flow through the fourth quarter. That's not in that $0.01 to $0.02 accretion number. It's about somewhere between $8 million to $12 million.

Chris Growe - ***Stifel Nicolaus & Company - Analyst***

So adjusted earnings, as we see it, would have no unique costs in there? That's what I'm trying to get at, yes.

Craig Steeneck - ***Pinnacle Foods Inc. - EVP & CFO***

That's correct.

Chris Growe - ***Stifel Nicolaus & Company - Analyst***

And then my other question -- a bit of a follow-on, I think, to earlier questions and a question Brian asked. But other large food companies have said that in this environment, given it's still a pretty challenged consumer environment, that incremental promotional efforts aren't really driving incremental volume. Maybe you have to be more promotional in certain categories just to be competitive. And so I just was curious if you would agree with that point and maybe how your promotional programs would be adapted to that kind of environment, if you are not really seeing much incremental lift from the promotional spending?

Bob Gamgort - ***Pinnacle Foods Inc. - CEO***

Yes, if you were to take a look at that answer across the entire industry, there is promotion fatigue, and it really is you are training consumers that this is what is to be expected. It's not an unusual event; it becomes more of an expected event. So there is less lift across the industry per incremental event.

But what I would also say is that answer varies significantly by category, by brand and by retailer. And the way that we manage our promotions is not on a blanket approach. It's really at a micro level, targeting events by retailer and by brand. And that's part of that increased investment that I talked about that we continue to build, which is understanding our trade analytics and our effectiveness of our trade spending. And so we are constantly calibrating on a quarterly basis about shifting money around to make sure that we are getting the right ROI.

It is more challenging than it was in the past, but it's still really important because that's how you win the game. When you get your promotion strategy right in a very challenged economic environment, you absolutely see a return on that investment. And the alternative of not promoting would be really, really tough in this environment. So I think it's a bigger challenge, but it doesn't give us an excuse not to do it or not to expect an ROI.

Chris Growe - ***Stifel Nicolaus & Company - Analyst***

And just to be clear, then, to go one step further, therefore, your incremental promotion you've stepped up here in the third quarter and it sounds like in the fourth quarter as well -- you are seeing the proper returns, then, I guess, is the way to say it?

Bob Gamgort - ***Pinnacle Foods Inc. - CEO***

We are seeing the returns that we have -- the returns we are getting are right in line with what our forecast was on all of those events. Some have a higher ROI than others, but we have gone into those with eyes wide open, knowing what our objectives are. And your objectives are always you are trying to balance protecting or gaining share with delivering the right profitability. Some events are inherently more profitable than others. But when we take a look across the board, we are getting the return on the investment that we expected when we put that money in place.

Operator

Ken Zaslow, BMO Capital Markets.

Ken Zaslow - ***BMO Capital Markets - Analyst***

Just a couple questions. One is the private-label discount to branded players seemed to -- over the last couple years, seems to be narrowing. A, are you seeing that in your categories, and are there any specific implications of that that we should be thinking about?

Bob Gamgort - ***Pinnacle Foods Inc. - CEO***

Yes. If you take a look at it since the recession, you would have thought that private label would have gained more share across the industry than it actually did. And the reason that it didn't gain as much share is because the branded manufacturers have been more thoughtful about making sure that the price gaps did not get out of line.

I think what's interesting is, when you take a look at some of the most recent periods -- and several of you have written about this in your reports -- we have seen those price gaps widen a bit, and you see private label in the very short-term gaining some share.

So part of our investment in the third quarter and more in the fourth quarter to make sure that we continue to win is not only just to get the right promotional event in terms of the quality of those events, but also making sure that we tighten up those price points where we see the price gaps get out of line. And so we manage -- that's one of the metrics that we manage. It's not the only one, but it's one that we manage.

What's interesting is, when you take a look across our categories, we have done really well relative to private label. So that strategy is working. It's always out there. You always have to watch those price gaps, but we are happy with the results that we are getting from our investment.

Ken Zaslow - ***BMO Capital Markets - Analyst***

Okay. My next question is, what would enable you to get to the top end of your productivity? Because it seems like the last couple of years you really have actually either been at or above your productivity goals. And I'm trying to figure out are you just being conservative, or is there really a change in your execution going forward that may not get you to the top end or in excess of it?

Craig Steeneck - ***Pinnacle Foods Inc. - EVP & CFO***

Well, the big difference, Ken, is that the last two years where, you were right, we have been at the top end of that 4%, is we have been able to utilize the benefit of the three plant closedowns that we've talked about. So that incremental consolidation of those manufacturing activities has allowed us to be able to get to the top end in 2012 and 2013.

We are at the tail end of that now, so you don't get as much flow through in 2014 for that as we have in the last couple of years.

Bob Gamgort - ***Pinnacle Foods Inc. - CEO***

And I think the other thing that creates some variability on why we give a range and not a precise number is we've got projects that have to be identified. You have to implement them, and then the benefits have to flow through the P&L. And that can move by a month or two to the favorable or to the unfavorable and cause a little bit of a swing in there. So that's why we give a range around these.

Ken Zaslow - ***BMO Capital Markets - Analyst***

And then my final question is, it seems like you reinvested a greater portion of your margin expansion into the business this quarter just because it sounds like gross margins came in a little bit better than expected. But next year you gave a more, we think, more realistic look at your cost of goods sold increase of only 2%. What will you do with the extra 100 to 200 basis points relative to your initial expectations? Are you going to reinvest it or drop it to the bottom line? How do we think about that?

Bob Gamgort - ***Pinnacle Foods Inc. - CEO***

We are going to do what we did this year, which is we are going to build our [assumption] that the concurrent environment continues, and we are going to -- in the early part of the year, we used it as a reserve to decide what happens in the next part of the year. It would be really difficult for us to sit here today and try to predict what could happen in the second half of 2014.

And so we put annual plans together, clearly, but in there, we create a lot of flexibility to change to market conditions.

So I think that answer of what we are going to do with it is dependent upon what we see in the marketplace. If it's very promotionally aggressive, then we will be ready to match those price points where we think we need to, to make sure that we are able to protect our business. If we see it less promotionally aggressive, we have the choice at that point to invest in the consumer side of our business, to accelerate new product introductions, or to drop it at the bottom line. But I don't want to sit here today and commit to what the pricing environment is going to be in the back half of the year because that's really what is going to dictate the difference between productivity and inflation.

So good line of sight on those, but much less clarity around what is going to happen from a pricing standpoint.

Operator

That concludes our question and answer session for today. I would like to turn the conference back to management for any concluding remarks.

Maria Sceppaguercio - ***Pinnacle Foods Inc. - SVP, IR***

Well, thank you, everyone, for joining us today. I will be around all day. So if you have any follow-up questions, just give me a call. Take care.

Bob Gamgort - ***Pinnacle Foods Inc. - CEO***

Thank you.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This does conclude the program, and you may now disconnect. Everyone have a good day.