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Pinnacle Foods, Inc. (PF)

Q1 2016 Earnings Call

CORPORATE PARTICIPANTS

Maria A. Sceppaguercio
SVP-Investor Relations & Communications

Robert James Gamgort
Chief Executive Officer & Director

Craig D. Steeneck
Chief Financial Officer & Executive Vice President

OTHER PARTICIPANTS

Andrew Lazar
Barclays Capital, Inc.

Evan Morris
Merrill Lynch, Pierce, Fenner & Smith, Inc.

Brian P. Holland
Consumer Edge Research LLC

Farha Aslam
Stephens, Inc.

Steven Strycula
UBS Securities LLC

Eric Larson
The Buckingham Research Group, Inc.

Carla M. Casella
JPMorgan Securities LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, and thank you for standing by. Welcome to the Pinnacle Foods Earnings Call for the First Quarter Ended March 27, 2016. This conference is being recorded and there will be a question-and-answer session at the end of the call.

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

Maria A. Sceppaguercio
SVP-Investor Relations & Communications

Thank you. Good morning, everyone, and thanks for joining us today. Earlier this morning, we issued our press releases of the first quarter of 2016, which is available on our website in the Investor Center. As indicated in the release, we delivered a solid quarter and reaffirmed our outlook for full-year EPS in the range of $2.08 to $2.13, including approximately, a $0.05 from the Boulder Brands acquisition.

As you know, we completed the acquisition of Boulder on January 15, 2016 and their results are consolidated with Pinnacle since the date of acquisition. The integration of the business on to the Pinnacle platform is well underway and tracking on plan.

As you know, in March, we announced that Bob Gamgort will be leaving Pinnacle and our board at the end of April to pursue an opportunity with Keurig Green Mountain, which was recently taken private by JAB Holding.

Yesterday, we announced that Mark Clouse will be joining Pinnacle as our new CEO effective May 23 and that Craig Steeneck, our CFO, will assume the additional role of Interim CEO until Mark arrives. Mark joins Pinnacle from Mondelez, where he has spent the past 20 years in a broad range of senior leadership positions; most recently, as Chief Commercial Officer of the company.

We are thrilled to welcome Mark to the Pinnacle team. In the next few weeks, we are planning to host an investor reception that will provide an opportunity for you to meet Mark and members of our board. More details on that will be forthcoming shortly. As usual, here with me to discuss our results for the quarter are Bob and Craig.

Before turning it over to them, let me touch on a few housekeeping items. Our release and conversation this morning will include our results on an adjusted basis. The adjusted basis excludes acquisition, merger, and other restructuring charges, and other items affecting comparability. The company believes that the adjusted basis provides investors with additional insights 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 excluded items are included in the reconciliation tables included in our press release and are discussed in detail on our 10-Q, which will be filed later today.

Also reconciled in our 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 and depreciation and amortization adjusted to exclude items affecting comparability. Other adjusted metrics discussed on the call are calculated using this methodology unless otherwise indicated.

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

With that I'll hand it over to Bob.

Robert James Gamgort

Chief Executive Officer & Director

Thanks, Maria, and thanks to everyone for dialing in. As you know, tomorrow is my last day at Pinnacle. As I reflect in the past few years, which stand outs to me the most is the resiliency and focus of the Pinnacle organization to deliver on its commitment. Whether it's the news of the IPO in 2013, or a unsolicited buyout offer in 2014, acquisitions like Boulder Brands, or any of the other significant events that occur from time to time, the Pinnacle organization keeps its composure and delivers. This past quarter and the results that we will be discussing with you here today were no different. This gives me great confidence that the CEO transition will be a smooth one.

As stated in our press release this morning, I believe the appointment of Mark Clouse as CEO is an outstanding development for Pinnacle. Mark has a unique blend of strong operational and strategic skills and inspirational leadership style and extensive industry experience. In partnership with our strong executive team, I'm confident that Mark will continue to drive and evolve Pinnacle's successful business model. I know you will enjoy meeting Mark next month.

Turning to the quarter, I'll quickly touch on some of the highlights and then turn it over to Craig to take you through the details before we move to Q&A. Starting with market share for our North America Retail business, we again outpaced the performance of our categories, growing or holding market share in nine of our 14 categories, including five of our eight leadership brands. This marks our 13th straight quarter of holding or growing composite share with our growth accelerating significantly in 2015.

Retail consumption for the quarter was up 3.6% in a category composite that was down. This strong performance drove composite market share growth of 90 basis points, fueled by particular strength of our Frozen segment. In Frozen, our composite market share advanced 140 basis points on consumption growth of 6%. This reflected very strong performance from our Birds Eye franchise, driven by the success of our 2015 innovation platform, continued expansion of Gardein and the strength of the core business.

In the Grocery segment, share and consumption were both even with versus a year ago for the quarter with trends in baking and dressings improving. In baking, we held share in a category that continued to be challenged, but where our strategy to trade consumers up to higher-margin premium offering continues to work. Our consumption at the premium end of the category advanced 21%, driving a share increase of almost a full point, while at the low end of the category consumption declined 9% and share was off about a point.

Wishbone consumption was up in the quarter as the two new platforms launched in February began to make their way to retail shelves. More on that shortly. In terms of sales versus consumption, North America Retail net sales trailed consumption in the quarter largely due to the Grocery segment. This reflected the impact of significantly higher new products introductory expenses in 2016 and the timing of quarterly shipment.

We expanded our adjusted gross margin by 94 basis points in the quarter due to strong productivity, improved product mix, including the benefit of Boulder, and slightly favorable net price realization, despite significantly higher new product introductory expenses. These benefits were partially offset by modest input cost inflation and higher depreciation expense.

Below gross profit, both SG&A and interest expense increased during the quarter, largely due to the Boulder acquisition, all of these factors taken together resulted in adjusted diluted EPS of $0.40 for the quarter.

Turning to our segment, the Birds Eye Frozen segment delivered a strong quarter with net sales growth largely fueled by Birds Eye, Gardein and Hungry-Man, partially offset by softness in seafoods. Despite growing our seafood market share by a 150 basis points, the category was unusually weak, which pulled down our consumption in the quarter.

The Birds Eye franchise posted a high-single-digit net sales growth for the quarter with both vegetables and skillet meals up strongly. This continued momentum reflected a benefit of a strong core business and the incremental benefit of the significant innovation we've launched in 2015. In terms of market share, Birds Eye Vegetables advanced 2.8 share points on 12% retail consumption growth, while Birds Eye Voila! share advanced 4.6 points on 5% consumption growth.

Earlier this month, we launched a dozen new varieties across our highly successful flavorful protein blends and Disney-themed platforms, introduced last year and expect this new slate of innovation to continue to drive the momentum of the business. During the quarter, we also launched four new varieties of Hungry-Man Selects, a new variety of both Mrs. Paul's and Van de Kamp's flavor crusted fillets and new Aunt Jemima Griddle Poppers breakfast line.

Gardein continues to grow at a strong double-digit rate with retail consumption in the quarter up more than 30%. To keep up with demand, we expanded capacity in early 2016 at Gardein's Vancouver facility. And given the outlook for continued aggressive growth of the business, we acquired a plant in Hagerstown, Maryland last year. We expect the incremental capacity for Gardein to come online in early 2017.

Adjusted EBIT for the Frozen segment advanced 14% and EBIT margin expanded 150 basis points, reflecting the benefits of the sales growth and productivity savings, partially offset by input cost inflation.

Turning to our Duncan Hines Grocery segment, net sales for Grocery declined 7%, largely reflecting the lower volume on Duncan Hines, stemming from the previously discussed strategy shift to the premium end of the category and the unfavorable impact on net sales of significant new product introductory expenses, mostly behind Wish-Bone. Also impacting the net sales performance was unfavorable foreign currency translation of 0.5% due to our Canadian business.

During the quarter, we introduced Wish-Bone E.V.O.O., a new five-item salad dressing line, featuring a higher level of extra virgin olive oil than in most mainstream dressings, and Wish-Bone Ristorante Italiano, a four-item line made with artisan cheeses and spices to provide consumers with a restaurant-style experience at home.

These two new premium tier platforms represent the most significant innovation news in the salad dressing categories for quite some time. The new items began shipping in February to those retailers who have early reset schedules and are now becoming broadly available at retail, with ACV approaching 50% at the end of Q1. The sell-in went very well, and we are gaining incremental shelf space at retail. We just turned on the consumer marketing and in-store shopper marketing programs to drive awareness and trial now that we have reached a threshold level of distribution.

We also introduced two heart-shaped varieties of Duncan Hines Perfect Size baking kits for Valentine's Day. This new platform introduced in mid-2015 addresses the structural category challenge of the decline in U.S. household size, which makes baking a full-size cake less desirable.

Perfect Size is a premium-priced, premium margin baking kit that includes both the baking and frosting mixes as well as a six-inch disposable baking pan. It has been met with great consumer response, and we plan to continue to support the new platform as the year unfolds.

Adjusted EBIT for the Grocery segment declined 12% in the quarter due to the impacts of the lower volume, significantly higher new product introductory expenses, increased depreciation and input cost inflation, partially offset by productivity savings and favorable pricing.

Turning to our Specialty segment, Specialty started the year off slowly, as expected, largely due to softness in private label canned meat. We expect Specialty sales to remain under pressure through Q2, when it will comp the large USDA stew bid in the prior year before this segment becomes positive in the back half of this year.

Turning to the Boulder Brands segment, the business had a good quarter, contributing over $100 million in net sales and $12 million in adjusted EBIT. From an EPS standpoint, after giving effect to the acquisition-related interest expense and the impact of Boulder's higher effective tax rate, the business contributed about $0.01 in the quarter. The integration of the business is proceeding well and is on track with our acquisition plan.

Synergy capture is on schedule for 2016 and our visibility into 2017 continues to improve. While we continue to expect the primary benefit from the acquisition to be spread over 2016 and 2017, we believe there may be opportunities to drive incremental long-term growth beyond 2017 as was the case with our acquisition of Birds Eye.

Consistent with our previous disclosure, areas of significant opportunity include realizing the benefits of the SKU rationalization efforts we contemplated in the acquisition model, as well as the benefits of scale on areas such as procurement, manufacturing and logistics. It also includes the previously discussed focus on eliminating duplicative costs and executing against cost savings opportunities identified by the Boulder team before we acquired the business.

The realization of the $30 million in acquisition synergies will be split rather evenly between 2016 and 2017 with 2016 savings coming primarily from SG&A, transportation and warehousing. The 2017 synergies will benefit from wraparound savings in these areas as well as savings in procurement and manufacturing, which generally take longer to flow through the P&L.

The SKU rationalization project is very much on track with the analysis of the entire Boulder portfolio having been complete, SKUs to be phased down have been identified based on low margin and low velocity characteristics. In terms of timing, implementation will likely begin this fall, and the team will be executing the project in a measured and collaborative way with our retail partners.

And with that, I will hand it over to Craig.

Craig D. Steeneck

Chief Financial Officer & Executive Vice President

Thanks, Bob, and good morning, everyone. Starting with sales, our consolidated net sales increased 13.4% in the first quarter to $754 million, reflecting a 15.2% benefit from the 10 weeks of Boulder Brands ownership and slightly higher net price realization, which includes the unfavorable impact of new product introductory expenses. Partially offsetting these positive drivers were lower volume mix of 1.7% and unfavorable FX.

The timing of Easter had minimal impact on the overall sales results versus a year ago. Net sales for the company's North America Retail business decreased 1% in the quarter, reflecting lower volume mix of 1% and unfavorable foreign currency translation of 0.3%. Partially offsetting this was higher net price realization of 0.3%, which included the impact of higher new product introductory expenses.

Our Birds Eye Frozen segment delivered another solid quarter with net sales up 3.8%, driven by higher volume mix of 3.4% and increased net price realization of 0.5%. Net sales for our Duncan Hines Grocery segment declined 6.9% due to lower volume mix of 6.3% and unfavorable foreign currency translation of 0.5%.

Net price realization of 0.1% included the unfavorable impact of significant new product introductory expenses behind the launch of a number of new offerings in the quarter, particularly, Wish-Bone E.V.O.O. and Wish-Bone Ristorante Italiano. We also launched two new heart-shaped varieties for Duncan Hines Perfect Size baking kit in the quarter.

Net sales for the Boulder Brands totaled $101 million in the quarter, representing 10 weeks of ownership. Retail consumption for Udi's, Glutino, Earth Balance and EVOL brands continue to be robust. And trends behind Smart Balance are beginning to show improvement. In addition, as Bob discussed, the integration of Boulder Brands continues to meet our expectations and our line of sight to achieving synergy targets, we discussed previously, has improved with time.

Lastly, net sales for our Specialty Foods segment declined 6.9% in the quarter, reflecting lower volume mix of 6.2% and lower net price realization of 0.7%. As expected, the sales decline is due to pressure on our canned meat business.

Turning to adjusted gross profit, gross margin advanced 94 basis points in the quarter to 27.3%, reflecting productivity savings of 3% and improved product mix, including Boulder Brands, partially offset by input cost inflation of 1.8% and new product introductory expenses.

From an overall cost perspective, we experienced a highest level inflation in corn sweeteners and egg whites, the latter of which is a major input for Udi's and Glutino. While still inflationary, we're seeing logistics and freight cost start to moderate, as capacity improves with the declines primarily in oil and coal shipment. We're seeing deflation in proteins and grains and oils, excluding corn sweeteners similar to others in our industry.

Now turning to EBIT, excluding items affecting comparability, EBIT advanced approximately 12% to $107 million in the quarter, driven by the growth in gross profit, partially offset by higher marketing investment and administrative expenses, driven by the Boulder Brands acquisition.

Interest expense for the quarter increased to approximately $32 million, largely driven by the additional debt issued to finance the Boulder Brands acquisition, and to a lesser extent, higher interest rates on base Pinnacle.

Beginning with the filing later today of our 10-Q, the interest rate on our pre-Boulder term loans will step up by 25 basis points due to net leverage increasing above the 4.25 times leverage threshold. Our effective tax rate, excluding items affecting comparability, declined to 37% compared to 38% in the year-ago period.

This decline was primarily due to the increased benefits from the domestic production activities deduction and federal and state tax credits, partially offset by the higher tax structure of Boulder Brands. Adjusted net earnings increased 3.3% in the quarter to $47.4 million, or $0.40 per diluted share, compared to $45.9 million or $0.39 per diluted share in the year-ago period.

Now turning to cash flow, net cash provided by operating activities in the first quarter totaled $77 million, compared to $71 million last year. Capital expenditures in the first quarter totaled $34 million, compared to $27 million in the year-ago period. For the full-year, our CapEx forecast remains unchanged in the range of $135 million to $145 million, including approximately $30 million for the previously disclosed Gardein capacity expansion and approximately $20 million for Boulder Brands.

Now, turning to liquidity, at the end of the first quarter, our total debt was $3.2 billion, including $2.5 billion in term loans, $350 million in 4.875% senior notes and $350 million in 5.875% senior notes. Cash totaled $81 million, bringing our net debt to $3.1 billion and our net leverage to 4.8 times.

As we stated previously, we expect to delever quickly, consistent with our previous de-leveraging post-acquisition. And finally, in terms of our outlook for the year, we continue to expect diluted EPS in the range of $2.08 to $2.13. This guidance includes approximately $0.05 of EPS we expect from the Boulder Brands acquisition and it continues to incorporate the following unchanged assumptions: Boulder Brands is expected to contribute net sales in the range of $460 million to $480 million, reflecting only 49 weeks that Boulder will be consolidated with Pinnacle. It also reflects the anticipated impact of SKU rationalization efforts that are critical to synergy capture and building the foundation for accelerated growth. One-time integration costs for Boulder are expected to approximate $25 million, and will be treated as an item affecting comparability.

Input cost inflation for the year is estimated in the range of 2% to 3%, including Boulder Brands. Second half inflation is expected to be higher than the first half. Productivity is estimated in the range of 3.5% to 4% of costs, including Boulder Brands organic cost savings, but excluding synergies. Second half productivity is expected to be higher than the first half.

Interest expense is estimated to be approximately $140 million. This includes $45 million associated with the Boulder Brands acquisition, including the previously mentioned 25-basis-point interest rate step-up on the pre-Boulder term loans.

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

And that is expected to be less of a headwind in 2016 with the impact estimated at about $0.01, depreciation and amortization expense is expected to be in the range of $105 million to $115 million, including Boulder and a full-year weighted average diluted share count of approximately 118 million shares.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] First question is from Andrew Lazar of Barclays. Your line is open.

Andrew Lazar
Barclays Capital, Inc.
Q

Good morning, everybody.

Robert James Gamgort
Chief Executive Officer & Director
A

Good morning, Andrew.

Andrew Lazar
Barclays Capital, Inc.
Q

It's been a pleasure working with you, and wish you all the best.

Robert James Gamgort
Chief Executive Officer & Director
A

Thank you. Likewise.

Andrew Lazar
Barclays Capital, Inc.
Q

Sure. So two questions for me, if I could. I guess, first, just digging a little deeper into the volume decline in the Duncan segment, definitely a bit weaker than we had modeled. I guess, if you could help us understand maybe where this – again, on the volume side, where that weakness was concentrated, meaning, baking or dressings or both? I would have thought that with the launch of the Wish-Bone innovation, even though it's not fully shipped, that would have helped the volume there.

And then, you've been going through the premiumization strategy in baking for a while now, so wasn't sure why volume maybe would have tailed off further in this quarter versus the previous couple? And then just, your thinking about how we should think about volume in the segment maybe as we move into the second quarter, particularly, because volume comps get much easier.

Robert James Gamgort
Chief Executive Officer & Director

A

Sure. One of the things, I think, is unusual in this quarter is a disconnect between consumption and net sales. Anyway that happens from time to time for a variety of reasons, but this is one of the bigger disconnects. So let me take a moment to help people work through the math of that and then I'll get very specific within the Duncan Hines segments, and obviously, if you got a follow-up on it, I'd be happy to dig deeper in there.

I think when we take a look at our consumption on core Pinnacle, it was plus 3.6% in the quarter, which is outstanding not only relative to our categories but outstanding relative to our peer set. And if you take a look at Boulder ex-Smart Balance, which we talked a lot about Smart Balance, the consumption on that business was up 8%.

So we've got strong consumer off-take of our businesses, which is always a very important leading indicator, and as we know, shipments equal consumption over time. But then you take a look at those strong consumption numbers and you say net sales excluding Boulder were down 1.8%. How do you reconcile those two? And I know this well because we had to do this for ourselves.

So the first thing you do is you back up that specialty business, which is private-label canned meat, which is, by no means, a core business for us. And in North American Retail net sales is actually down 1% versus the total business is down 1.8%.

When you factor in all of the significant new product introductory costs, which are heavily concentrated in the Duncan Hines segment, which I'll get to in a minute, and you also factor in foreign exchange, which is Canada, which is really a Q1 impact. If you remove those factors from it, our net sales is actually positive for the quarter, and so there isn't nearly the gap that you see between consumption and revenue in the quarter.

So it's hard for you guys to see all the moving parts, but that tells you that what on the surface looks like a significant disconnect is actually much smaller than that when you get into it. And obviously, then what's the remaining difference? It's the normal quarter-to-quarter volume movement that we see almost every year.

So when I drill into Duncan Hines segment, that's obviously more significant of a disconnect because the Duncan Hines segment in total from a consumption basis was flat, but yet the revenue was way off. Couple of things: one is almost all of the introductory costs that had a big impact on Pinnacle, as a company, were concentrated in that segment; all of the FX impact, which again is a Q1 situation, is concentrated in that segment, because I'll remind you that Canada reports in there as well.

And then it really gets down to Wish-Bone and Duncan Hines as brands. And on Duncan Hines, most of this is driven by a mix shift away from the low-end, which has a lot of volume to the premium end. And as we said in the prepared remarks, we had a 21% consumption increase in premium, and we had a pretty significant decline in the low-end.

Let's be clear, we could fix the decline in the low-end if we chose to by dropping price to match competition. But from a profit standpoint, it's a really bad decision. So it's a tough bumpy process to work our way through from the low-end to the high-end, but it really is working from a gross margin standpoint. Again, you guys don't have gross margin visibility at that level, but really is the right thing to do. But as we talked about from time to time, we're going to see some volume weakness in total on Duncan Hines. But I would ask you to take a look at the premium segment and see the great success that we're having there.

Andrew Lazar
Barclays Capital, Inc.

Q

Got it. So as we think through 2Q, specifically, in the Duncan Hines, baking side, given that disparity between what you're growing premium at and sort of the low-end, I think we should continue to see probably some of that as we move forward into the 2Q as well even if the broader disconnect is not as wide?

Robert James Gamgort
Chief Executive Officer & Director

A

Yeah, no question. And I think that's why starting about a year ago, we started giving you guys metrics, as we divided the Duncan Hines segment into Classic, Signature and Decadent, and we've shown that to you in a lot of our presentations. And we give you not only the share change, but also the consumption change, because it's hard for you guys to get visibility of that. But the reason we started signaling that about a year ago was to say don't measure Duncan Hines purely on its absolute net revenue number, because there's something more important at play here, which is getting the margin mix right.

And we can't be responsible for turning around this entire category, which is significantly weak. But what we've been able to show is that we've been able to go for the higher profit segment of this category and reinvent that section. And again, 21% consumption on premium is really strong in a category that has significant declines overall. So it speaks to the consumer wanting a better experience in baking.

Andrew Lazar
Barclays Capital, Inc.

Q

Okay. Thanks for that.

Robert James Gamgort
Chief Executive Officer & Director

A

Can I talk about Wish-Bone though for a sec?

Andrew Lazar
Barclays Capital, Inc.

Q

Sure.

Robert James Gamgort
Chief Executive Officer & Director

A

Because I think that's the other component driving this. Wish-Bone, we're just in the middle of this introduction of the innovation, which was long awaited. We've had a great sell-in; the space has been almost entirely incremental. It's really just getting to shelf. And one thing I would point out that if you have the ability to take out the food segment from the MULO segment, what you're seeing is that certain grocery retailers were able to get this to the shelf faster, whereas some very large customers, one of largest customers, who's in the MULO segment didn't have distribution of it.

And if you look within food, for the entire quarter we actually had share growth and good consumption growth on Wish-Bone. So to me, that's the leading indicator of what's to come. But you pay for the slotting upfront. And so that's taking a disproportionate impact on the net revenue number right now. And everything I just said here in terms of all these moving parts, although it's hard for you guys to see it from the outside, that's why I'm taking some time and having you go through it, we anticipated this, which is why we communicated, when we're giving our guidance for the year, that we expected Q1 to be the toughest quarter for us. And I think despite all of these moving parts, we came in on really good shape on EPS.

And we showed you great gross margin improvement. I think as people process everything I just talked through, will realize this is a lot of upfront investment. That means that we should have, based on our reaffirmation of our guidance, that we should have good growth going forward, which is what we have a lot of confidence in.

Andrew Lazar
Barclays Capital, Inc.

Q

Yeah. Thank you for that detail. That's helpful. And then just a quick one Boulder. I guess, based on the 10-week results that was part of your business, certainly sales and EBIT appear to have come in at least a little bit above the run rate maybe that you were expecting for the year, or at least that we had modeled. And I know that so far EPS accretion for the year was unchanged. Just curious if there are any discrete benefits that affected that business in the first quarter, or seasonality maybe we should be thinking about? Or performance may, in fact, be tracking better, but it's just too early to make any actual guidance change on that front?

Robert James Gamgort
Chief Executive Officer & Director

A

Yeah. I think it's too early to give guidance change on that. We're really pleased with the start of the quarter on Boulder. And as we said again in the prepared remarks, we got great visibility to synergies in the business in total for both 2016 and even better – I think our visibility into 2017 continues to get better. When you take a look at it, as I said, if you pull Smart Balance out, the consumption of the Boulder portfolio is plus 8%, which is fantastic. And the reality is everything flows from good quality sales as you know.

And you could say it's not reasonable to take the Smart Balance business out, which, okay, we'll talk about it transparently. We forecasted that business to be down on a straight line basis from its previous trends for all of 2016 and into 2017. It's declining, but it's already moderating. And we've got a good game plan of what to do with Smart Balance. So even that business is performing better than expected.

So I would characterize it as a really good start. There's nothing unusual, or one-time, or seasonal in the nature of why that business performed well. And I think the team out there is very excited to post a good quarter after a lot of challenges over the past couple of years. And I think it gives them enough confidence that this is fundamentally a very good business that we can continue to drive.

Andrew Lazar
Barclays Capital, Inc.

Q

Thank you.

Robert James Gamgort
Chief Executive Officer & Director

A

All right. Thank you.

Operator: Thank you. Our next question is from Bryan Spillane of Bank of America. Your line is open.

Evan Morris
Merrill Lynch, Pierce, Fenner & Smith, Inc.
Q

Good morning. It's actually Evan on for Bryan.

Robert James Gamgort
Chief Executive Officer & Director
A

Good morning, Evan.

Evan Morris
Merrill Lynch, Pierce, Fenner & Smith, Inc.
Q

Just on the gross margin, you had a really nice increase in the first quarter. You kept your productivity guidance unchanged. Can you talk just about the gross margin progression for the balance of the year, sort of the cadence? And what are going to be the key drivers? Is it going to be a little less in terms of productivity and maybe more sort of price mix as you shift that as an upfront expense in the first quarter? If you can just walk through the cadence there.

Robert James Gamgort
Chief Executive Officer & Director
A

Yeah. I'll turn it over to Craig in a second. And I would say if you take a look at this business going all the way back to the IPO, one of the pieces that we highlighted as part of the acquisition thesis was the fact that we had tremendous opportunity to increase our gross margin. And we've consistently done that now for three years. And again, as you point out, Q1 was very good.

In terms of where we think the limit is on gross margin, we don't know where that is, but we're nowhere near close to that. And our gross margin is driven by three or four factors, which is productivity versus inflation. It's driven by net price realization. All of our innovation is margin-accretive and our leadership brands grow faster than our foundation brands. So any one of those, or any combination of those, I should say, is what drives gross margin. Of course, you get a different answer quarter-by-quarter.

So let me turn it over to Craig; he can give you some thoughts on the Q1 piece and then how you should think about that for the rest of the year.

Craig D. Steeneck
Chief Financial Officer & Executive Vice President
A

Good morning, Evan. So as we disclosed, the mix for the first quarter in terms of productivity and inflation, we had 3% productivity in Q1, very consistent with our internal plans and we've kept the guidance for the year at that 3.5% to 4% range. So we will see, which is consistent with what we've done in past, that the productivity percent of comps will increase as the year goes on and guided to the fact that productivity will be stronger in H2 versus H1.

On the inflation side, inflation came in at 1.8%, so very low. And that was influenced by carryover costs from last year. The inflation takes a little bit of time to get through the P&L because it stays in the inventory on the balance sheet for a bit. So we had favorable costs on sugar and corn sweeteners from last year that positively influenced Q1. And that will not be as strong going forward.

So again, we kept our inflation guidance at 2% to 3%, with expecting that Q1 would be the lowest and we'd have higher levels of inflation in the back half. And again, I think that's highly influenced by corn sweeteners and sugar. And then, clearly, as Bob articulated, net price realization affects gross margin in the quarter, obviously, negative affected by the sliding of the new product introduction costs in Q1; that will mediate as we get into the back half of the year.

Evan Morris
Merrill Lynch, Pierce, Fenner & Smith, Inc.

Q

Okay. That's helpful. So then just, I guess, just to put these pieces together in my head as you're talking through them. So you had about 90-plus-basis-point improvement in first quarter. You get better productivity; inflation will pick up once you're going to get past this price investment. So should we think about similar rates of increase in each quarter from 2Q to 4Q? Or should that even – or am I hearing and it should even be greater increases sort of year-over-year and for the remainder of the year?

Craig D. Steeneck
Chief Financial Officer & Executive Vice President

A

Yeah. I wouldn't go quarter-by-quarter, Evan I'd go first-half-second-half. You'll have higher level – a greater level of productivity in the second half. You'll have inflation which will be higher, but not materially higher than what we've seen in Q1. And then, you won't have the adverse effect on net realized price from the slotting of the new product intervention. So H2 gross margin will be better than H1's gross margin.

Evan Morris
Merrill Lynch, Pierce, Fenner & Smith, Inc.

Q

Okay. Great. That's helpful. Thank you.

Operator: Our next question is from Brian Holland of Consumer Edge. Your line is open.

Brian P. Holland
Consumer Edge Research LLC

Q

Thank you. Starting, a quick housekeeping item. Could you share what you have for the growth in the gluten-free category this quarter? And then, I guess, to the extent there is any commentary tied to that will be hopeful.

Robert James Gamgort
Chief Executive Officer & Director

A

Yeah. Hang on one sec. I got to look up. We could show you the consumption growth on that.

Maria A. Sceppaguercio
SVP-Investor Relations & Communications

A

Consumption growth for us in the quarter?

Robert James Gamgort
Chief Executive Officer & Director

A

So if you take a look at the quarter from a consumption basis, Udi's plus 9%; Glutino 6.5% growth. So really, as we said all along, gluten-free segment shows no signs of slowing down at all. And obviously, with the two leading brands in that segment, Udi's and Glutino, they continue to benefit from that. We continue to be really bullish on those two brands in the segment in total.

Brian P. Holland
Consumer Edge Research LLC

Q

And I apologize. So I appreciate the color on the brands. But do you have a category number and maybe how they performed relatively to the category?

Robert James Gamgort
Chief Executive Officer & Director

A

I don't because here is what – and the reason it gets a little complicated. One of the things that we promised you guys is that as we get up to speed on the business, we're going to do what we did with the Pinnacle business, which is do a better job of defining the categories that we think are relevant from a consumer standpoint, not from the way Nielsen or IRI defines the categories. And so we'll do that. And it will be something that we will take you guys through as we did on the Pinnacle business.

But we don't really look at a total gluten-free segment. On a quarter-to-quarter or month-to-month basis, we get data certainly on an annual basis. And we want to make sure that the definition of what people describe are gluten-free are accurate. So the best thing that we can do in sort of a quarter-to-quarter basis is tell you what the brand consumption growth is.

Brian P. Holland
Consumer Edge Research LLC

Q

Got it. Thank you. Understood. So in the latest scanner data, we saw Smart Balance put up its performance in three years, I think, something down like low-single-digit year-on-year. I appreciate the impact of comps and other noise in any given four-week period. But just curious if there's any callout there. I know you said and sort of reiterated – at the time of the acquisition, you reiterated this morning that there's still going to be a time process here as you rationalize SKU, et cetera.

But just curious if you're seeing anything that might have you rethinking the trajectory of that brand over the next few years relative to, I think, your initial comment was in line with what you're saying, which is down mid- to high-teens maybe?

Robert James Gamgort
Chief Executive Officer & Director

A

Sure. So I think one of the things that you're seeing the benefit of right now is there's a lot of noise in that Smart Balance number over the past couple of years. And we tried to call that out, which is the core spread business, which is the heart and soul of that business and the one that has to be incredibly profitable was actually performing better than the ancillary line expansion that were being discontinued. And so what you are seeing over time, this was all part of our acquisition due diligence is that the ancillary SKUs were being discontinued, which was having a disproportionate effect when you looked at the reported Smart Balance number on consumption. And that is becoming less of a factor you're getting more visibility of what the underlying core Smart Balance business is.

Having said that, it's still not a growing business. And I think that we forecasted that in our acquisition model very conservatively. And we've got a lot of ideas of how we can stabilize that business if not actually get back to growth again. It's a little too early to give you a forecast of what we expect to be able to do with that. But we're very optimistic that we've got some good game plans on that business.

It tends to be much more of a grocery business. It's all of a traditional channel business; there's no distribution in natural and organic channel. It has a surprising amount of customer concentration in customers in which Pinnacle has a very, very good business relationship with. Remember, the business really started in the Northeast. It's got strength in Northeast and strength in Florida. And we think there's an opportunity to really get it back to its core benefit of heart health, which by the consumer base is buying it and the very loyal continues to drive that.

So, look, the good news is, it's exceeding our expectations from our acquisition plan. And we've really just gotten started in analyzing and moving forward with that business. So, again, like everything we see with Boulder, we see a lot of upside.

Brian P. Holland
Consumer Edge Research LLC

Q

If I could just close with this one. So curious your thoughts on the competitive landscape within frozen, you've got the Green Giant sale to B&G, and subsequent, restating that brand over the next six months to 12 months. And then ConAgra and Nestlé seemingly looking to mimic the blueprint that has served you guys so well the past few years. So I guess, what are you seeing and hearing from retailers and then maybe conceptually how you're thinking about the frozen door against what appears to be increased focus on the competitive side? Thanks.

Robert James Gamgort
Chief Executive Officer & Director

A

Yeah. It's a excellent question. If you go back to the time of our IPO, I said this several times, we felt like we were the only positive voice about the frozen category for a number of years. And our hypothesis was there's nothing wrong with freezers. In fact, look at the amount of freezers that are in Trader Joe's and Whole Foods in new formats. The issue is what's in the freezer. I think that has been proven out now, because as you see, innovation in the freezer category and you see brand renovation to be more in line with what consumers want, you're seeing a much better response within the frozen category.

So, again, I think that's a net positive for retailers who have a huge investment in this segment and also get a disproportionate amount of profitability from this segment. So we're happy to see that the entire category continues to grow. It's good for retailers, which means it's good for us.

With regard to how we think about the frozen business, our numbers are quite amazing. If you break them out down to the frozen level. So if you look at, for example, Birds Eye Veg consumptions in the quarter was plus 12%. Birds Eye Voila! consumption plus 5%, Gardein plus 30% and we are capacity constrained. And so we're holding that business back. This tells you that you can have more than just incremental growth in frozen. You can have explosive growth in frozen, if you get in sync with consumer trend.

So our strategy is to continue to do exactly what we're doing. But as we talked about, we want to evolve or pivot our portfolio more towards health and wellness over time. And that's not by any means changing our strategy. It really is evolving to say we know when brands are in line with consumer trends they grow faster. So why don't we give ourselves a better position there? Hence, the addition of the Boulder business and Gardein and if you think about Udi's, it's primarily a frozen business. If you think about EVOL, it's a frozen business.

So I like our strategy but we're not complacent, we're not content and we continue to push it. And any of the competitive activity that you talk about that's had no negative impact on us; if anything it's had, some positive effect on us. And even where there's an area, where there is a ton of price competition going on single-serve meals where we compete against some of the players you just talked about, Hungry-Man business had a great quarter. And it continues to move along and we continue to move that business into more premium segment through Hungry-Man Selects. So I think we feel pretty good that what we said could happen in frozen is. I love the fact that we're really on the leading edge of this both from a growth and innovation standpoint.

Brian P. Holland
Consumer Edge Research LLC
Q

Great. Thank you. Pass it on.

Robert James Gamgort
Chief Executive Officer & Director
A

All right.

Operator: Thank you. Our next question is from Farha Aslam of Stephens. Your line is open.

Farha Aslam
Stephens, Inc.
Q

Hi. Good morning.

Robert James Gamgort
Chief Executive Officer & Director
A

Good morning.

Maria A. Sceppaguercio
SVP-Investor Relations & Communications
A

Good morning, Farha.

Farha Aslam
Stephens, Inc.
Q

Question around Duncan Hines, do you think that the base is now bottom? We've been talking about this decline for about four quarters, do you think we're kind of hitting bottom so that now you can get the growth in your premium to really stabilize and grow the bottom line much more?

Robert James Gamgort
Chief Executive Officer & Director
A

It's a great question. As you can tell from a lot of our commentary is we are less and less focused on the low-end of the category over time, because we feel it's fairly dysfunctional pricing that has drained a lot of profitability out of that segment, not only for the manufacturers, but for the retailers. And most of the retailers now view that reluctantly as a loss leader. After all of us have been doing this for a long time, those are not the categories you want to spend much time thinking about. So what we've been doing now for about five years is continuing to pivot our business towards premium whether it's Signature, Decadent or now Perfect Size.

And again, we did look at it from a total volume basis, which is what you guys get a chance to take a look at it. But unfortunately, we get to also see it from a gross margin impact and a mix impact and we know that the strategy that we're doing is absolutely right. But I'm hopeful that there's a bottom on the low-end, but it's not something that we spend a lot of time thinking about or we lose a lot of sleep over. Because to be clear, the only way to compete in that segment is price, and we're low-cost manufacturer in that segment, we have, I think, an advantage portfolio. But there's a point in time we have to show some price discipline and just not go there. And I'm happy with the way that we've handled that segment.

Farha Aslam
Stephens, Inc.

Q

That's helpful. Just as we think about the Canadian dollar, is that the benefit to your business now that it's strengthened a bit? Can we just think about Canadian dollar going forward and the impact to earnings?

Robert James Gamgort
Chief Executive Officer & Director

A

Yeah. Good question.

Craig D. Steeneck
Chief Financial Officer & Executive Vice President

A

Good morning, Farha. First of all, it's a very small percentage of the overall Pinnacle business, less than 5%. And as Bob articulated before, CAD dollar was particularly weak in the first quarter, comping against the period a year ago, where it was in the low $0.80s. With the prices of oil improving over the last six weeks to eight weeks, the CAD dollar has gotten nicely more positive. We actually locked in some CAD dollars at that rate, so you'll see it as a much less of a headwind going forward starting in Q2.

Robert James Gamgort
Chief Executive Officer & Director

A

And obviously, as I said earlier, because it's completely contained within the Duncan Hines segment. It was really Q1 impact. It was one of the three or four factors that I discussed that had a disproportionate effect on that segment. But, again, as Craig articulated going forward, that looks much brighter.

Farha Aslam
Stephens, Inc.

Q

Okay. That's helpful. Thank you.

Operator: Our next question is from Steve Strycula of UBS. Your line is open.

Steven Strycula
UBS Securities LLC

Q

Hi. Good morning, everybody.

Robert James Gamgort
Chief Executive Officer & Director

A

Good morning, Steve.

Maria A. Sceppaguercio
SVP-Investor Relations & Communications

A

Good morning, Steve.

Steven Strycula
UBS Securities LLC

Q

So two questions for you. One to piggyback off of the previous frozen category question, just thinking longer term what the diverging performance across single-serve versus frozen veggies, how should retailers – how are they thinking about cross managing the door space whether it's to allocate more space to kind of like your bread-and-butter versus some of the lagging parts of the category? And then I have a follow-up.

Robert James Gamgort
Chief Executive Officer & Director

A

Yeah, they are doing that. And a part of the benefit that we have is in a lot of critical customers now we've become the category captain of various levels of the Frozen segment. So we get a chance to help shape that with them. And clearly, with Birds Eye Vegetables growing at plus 12% and Voila! continuing to grow, it's been explosive growth since the beginning. We're getting more and more shelf space for those segments.

Gardein is a great example where our retailers want to take more Gardein distribution. And we just don't have the capacity to do so right now. Of course, we're going to fix that. And then you see brands like EVOL now picking up incremental shelf space in traditional retailers, who in the past didn't carry it. So all of that space that we're talking about that we're gaining is coming from somewhere and it's coming from lower velocity, lower margin segments that are out of sync with consumer trends.

And that's just a continuous process. And what wins the day is good business performance from a retailer perspective, which means category growth, and also innovation wins the day. And that's why we've been able to drive such a strong Frozen business and I believe that this evolution of space is just going to continue. We're really just getting started on that.

Steven Strycula
UBS Securities LLC

Q

Okay. And just to be clear, you're not capacity constrained or close to being capacity constrained with the Birds Eye business?

Robert James Gamgort
Chief Executive Officer & Director

A

No, not at all. So you can imagine with 12% consumption growth, we've had to make some moves to be able to unlock more capacity within Birds Eye because that is incredibly strong for a category that hadn't been growing except for Birds Eye. So yeah, we are in good shape on all of that. And just to reiterate on Gardein, we got ahead of this as much as we thought was possible, which is we expanded capacity in the Vancouver plant nicely. And then we acquired the Hagerstown plant in last year, late last year, and that will be up and running, call it, beginning of next year. And at that point, we'll really be able to turn on marketing and continue to grow distribution. We capped our distribution on Gardein, because we don't have our ability to sell it. So we've got a lot of nice businesses ready to roll that we can unlock end of 2016 into 2017. Boulder businesses would be part of that as well.

Craig D. Steeneck
Chief Financial Officer & Executive Vice President

A

Yeah. And so Steve, we've put some capital into our existing manufacturing site last year, and starting to do so this year, and then we have much more flexibility there to add co-packers for Birds Eye to be able to supplement what we need there. So that's not a capacity constrained supply chain.

Steven Strycula
UBS Securities LLC

Q

Okay. Great. And then one bigger picture question for Europe frozen. I know you don't participate there, but is there anything structural that doesn't lend itself to consolidation across the pond so to speak? Do the procurement savings not materialize in that scenario? Or is there something structural that just doesn't make outside the U.S. the viable option for the frozen category relative to center of store?

Robert James Gamgort
Chief Executive Officer & Director

A

You're talking about why is frozen not performing as well in Europe versus U.S.?

Steven Strycula
UBS Securities LLC

Q

Or is that – yeah, you can answer that, but also just curious as to whether consolidation makes sense outside of just the United States?

Robert James Gamgort
Chief Executive Officer & Director

A

Yeah. I think consolidation across border, and we've looked at it a number of times, and one of the reasons that we are able to run a highly successful company and that's such a lean operator, and have the lowest overheads in the industry if not the lowest, is because we really kind of focus on the North American market. If we thought that there was a big consolidation opportunity from a supply chain standpoint across borders we would've done that. But the reality of it is, in vegetable procurement in particular, the supply chain is fairly local and we get the majority of our sourcing of raw materials, vegetables, from within 100 miles of our plants in the Midwest, which is part of the whole quality of our supply chain, because the vegetables are grown and frozen within hours.

So it's not as attractive. I'd say, in general, with rare exception, the food supply chain is very local. It doesn't really make sense to ship products across oceans or across borders of any distance unless they're highly unique, specialized products. It's pretty rare that you'd see that kind of consolidation opportunity on supply chain in food.

Steven Strycula
UBS Securities LLC

Q

Great. Thank you.

Robert James Gamgort
Chief Executive Officer & Director

A

Sure.

Operator: The next question is from Eric Larson of Buckingham Research Group. Your line is open.

Eric Larson
The Buckingham Research Group, Inc.

Q

Yeah, good morning, everyone.

Robert James Gamgort
Chief Executive Officer & Director A

Good morning, Eric.

Eric Larson
The Buckingham Research Group, Inc. Q

And congratulations, Bob, and good luck, and it's been nice working with you. And I suspect that we haven't seen the last of you sometime over the – sometime in the distant future here, so – but good luck.

Robert James Gamgort
Chief Executive Officer & Director A

Thank you and let's hope so. That would be great.

Eric Larson
The Buckingham Research Group, Inc. Q

So my question – you've already partially answered it a little bit with your capacity, and I think Craig addressed it. You said that you're not capacity constrained in certain aspects with your co-packers and now you have your new facility that you bought for frozen. Is that coming up – I guess, I'm kind of missing the – how the capacity is going to come lining up for your frozen business this year?

Robert James Gamgort
Chief Executive Officer & Director A

Yeah. So first of all, let me break that out, because the one question was we're capacity constrained right now on Gardein, which is why we're growing at around 30% which is nice, but we can be growing even faster.

It's the Gardein production that we invested in, in Vancouver and are targeting the new plant to be primarily a Gardein plant going forward. And what's nice about that is it takes time to do all of the foundational and infrastructure work on that plant to get ready to be open. But once it is open, our ability to expand Gardein production within that plant becomes more modular and incremental. So we can add lines and we'll have space for the lines and the infrastructure already in place. So once we get it up and running, we'll be able to add capacity for Gardein to that plant fairly easily.

The other question was we're getting explosive growth on Birds Eye Veg and Birds Eye Voila!; do we have enough capacity there? And that's Craig's point, which is we've made capital investments in our Waseca, Minnesota and Darien, Wisconsin plants to be able to handle more volume.

And we've also sort of expanded a network of co-manufacturers to handle peak volumes for us, is the way I think about that. As you know, we are heavily a self-manufactured company; we don't use a lot of co-manufacturing. But we've leaned on some co-manufacturers to be able to handle some of the SKUs on a peak volume basis, which also allows our manufacturing facility to run more consistently with fewer changeover, which allows us to get more output.

So I think that's why we feel good about the frozen supply chain. And people tell us all the time, that the Gardein problem is a nice problem to have. It is, but we can't wait to be able to unlock the growth on that business.

Eric Larson
The Buckingham Research Group, Inc.

Q

Okay, great. That's a lot better clarity, a lot more clarity and thank you for that. And then Bob, I know it's too early, but I've actually been fairly excited about your premium upping in your Duncan Hines category with your new – basically kind of a single serve or a two-person consumption, your in-trade premium cake mix product.

And I think it's – actually it's probably limited SKUs right now et cetera, and I think most of it was probably launched in February. Do have any repeat purchase data yet on that? I mean, is there a -can you share more insight on that or is it just way too early with that move in the premium side of the category?

Robert James Gamgort
Chief Executive Officer & Director

A

Yeah, we launched the initial kind of core flavors of Perfect Size in midyear, a little late, call it, third quarter last year 2015. And it got off to an incredibly good start and continued to be strong. I think it was in the September timeframe we talked to you guys about 5% share of cake mixes right out of the box which is remarkable before we really even turned on any advertising. So it was clear to us that that was tapping into a unmet consumer need.

The heart-shaped varieties that we introduced are the first of another stream of innovation off of Perfect Size, which is given that we supply you the pan and the frosting, we can also change the shape of that pan to make it more special occasion. And so those were really targeted for Valentine's Day and you can imagine there are a lot of other ideas that we have to be able to use, shape among other levers to be able to create more excitement around perfect size.

It's very early to see sort of the trial on repeat numbers. What I can tell you though is, what you get first are shopper data, so who is buying the product and what we're seeing is, it's years younger than we even expected, so what you're getting is smaller households and smaller households tend to be young and older. So we knew we'd get the older households because they are the primary bakers but we're getting younger, we're getting a lot of millennials into this, and what we also found is, is that the growth that we got on it, was almost entirely incremental to the category which again is a really important metric. So overtime, we'll have the trial and repeat numbers, but all of the early indicator numbers are very, very positive on what we thought it was going to be.

Eric Larson
The Buckingham Research Group, Inc.

Q

Okay. Thanks, Bob, and again, good luck.

Robert James Gamgort
Chief Executive Officer & Director

A

Thanks very much.

Operator: Thank you and next question is from Carla Casella of JPMorgan. Your line is open.

Carla M. Casella
JPMorgan Securities LLC

Q

Hi. I'm wondering what you are thinking on the additional M&A opportunities? Do you see more opportunity as we move to this year? Or are you taking a breather on the M&A front?

Robert James Gamgort
Chief Executive Officer & Director

A

Yeah. We never intentionally take a breather, because you have to mind these opportunities constantly and then you have to be able to move into action when something becomes available. One comment I would reiterate from our CAGNY presentation, which is – there were a lot of questions on my departure of, do we lose momentum in the M&A standpoint? I'll just reiterate what I said there, which is, we really have a three-person M&A team, Craig and I were the primary drivers of M&A, and we don't have a corporate development business or a department or an M&A group. It's really Craig and I do most of that work and then Roger Deromedi, our Chairman has been very hands-on and active on the M&A side.

So as I pointed out at that point, there hasn't been an M&A-related meeting, which Craig and I weren't sitting together and two of the three players of the M&A team will remain and Mark Clouse will get up to speed on that very quickly, and I have a ton of confidence he will be great at that.

So we continue to mind these. There are big opportunities that are still out there that we need to get the other party over to action mode. But what's been interesting about Boulder is it's opened up a stream of M&A ideas that we can plug into that that are smaller but faster growing and those that play off of our strengths like frozen would be one of our strength, and I think that's going to continue. And so I'm excited about the action ability of M&A in that space. And as we said, time and time again, we're very pleased that we haven't been sitting around for the past three years waiting for the big deal. We've done a number of mid-size and smaller deals that have really paid off handsomely in terms of shareholder return, and I don't think that's going to change going forward.

Craig D. Steeneck
Chief Financial Officer & Executive Vice President

A

And Carla, clearly our short-term focus is to integrate Boulder, continue to de-lever like we've done in all of our previous acquisitions and reload the balance sheet, so we'd have some dry powder for the future. So short-term, over the next quarter or two, that's clearly the focus.

Carla M. Casella
JPMorgan Securities LLC

Q

Okay. Great. But you would look pretty much for all categories. Are you looking more just for the kind of hot trend categories? Would you – I guess, I'm wondering, would you still add in frozen or a shelf-stable?

Robert James Gamgort
Chief Executive Officer & Director

A

Of course. Yeah. I think – look, we said that we want to build off of our existing or adjacent categories. So we don't – we've been really disciplined about not going out there and buying sort of hot, fast-moving categories that don't really play to our strength. We passed on a lot of things. But we can go one or two paths.

We can go the reinvigorating path, which is taking brands that need a lot of work that are well-known but are tired. And we can also – we've also shown with Gardein and Boulder that we can also go a slightly different direction. But, remember, Boulder – I mean, Gardein is a 100% frozen, and Boulder is about 50%, 60% frozen.

So we are very thoughtful about – even when we get into faster categories, we want to be able to have an anchor in something that we're very good at. We don't see ourselves just as collectors of fast-moving businesses that we can just buy on at a reasonable price. There has to be a common thread to all of them.

Carla M. Casella
JPMorgan Securities LLC

Q

Okay. Great. Thank you.

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

Maria A. Sceppaguercio
SVP-Investor Relations & Communications

Thank you, everyone. It's Maria. I'm around all day today. So if you have any follow-up questions, you want to give a call, just do so. I look forward to talking to you. Take care.

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