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Pinnacle Foods, Inc. (PF)

Q3 2016 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the Pinnacle Foods Third Quarter 2016 Earnings Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session, when instructions following at that time. [Operator Instructions] And as a reminder, this conference is being recorded.

And now, I'll turn the conference over to your host, Maria Sceppaguercio. Please begin.

Maria Sceppaguercio

Senior Vice President, Investor Relations & Communications, Pinnacle Foods, Inc.

Thank you and good morning, everyone. Thanks for joining us today. Earlier this morning, we issued our press release for the third quarter of 2016. If you haven't received a copy of the release, you can get one on our website.

As usual, our 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 insight into our business and operating performance trends. While the exclusion of these items is not in accordance with GAAP, we believe that it is the most meaningful comparison and the most appropriate basis for discussion of our performance. Detail of the excluded items is included in the reconciliation tables in our press release and discussed in detail in our 10-Q, which will be filed later today.

One such item in the corner was an $11.2 million non-cash impairment charge we took to write down the carrying value of three tradenames that have been under pressure for some time, namely: Celeste frozen pizza, Aunt Jemima frozen breakfast entrees, and Snyder of Berlin snacks. In addition, earlier this morning, we announced the hiring of Michael Levitt to the newly-created position of Senior Vice President of Corporate Development. As you recall, earlier last month, we discussed the establishment of this role to increase our potential in the M&A arena, and we're excited to have Michael on board starting next week.

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

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

Mark A. Clouse

Chief Executive Officer & Director, Pinnacle Foods, Inc.

Thanks, Maria, and thanks to everyone for joining us today. The third quarter was another good performance for Pinnacle, particularly in the context of lapping the strong Q3, we reported last year. Our North America Retail business maintained its momentum, fueled by continued strength of our Frozen segment. Our Boulder Brands segment also delivered another strong quarter, while our Specialty segment posted a modest decline as expected. All in, we continue to feel good about 2016, and as a result, we are increasing our guidance for full year adjusted EPS to the high end of our range.

Turning to some highlights of the quarter. Net sales advanced 19%, driven by the benefit of the Boulder Brands acquisition and growth approximating 1% for North America Retail. Within North America Retail, the Frozen segment posted a 4% increase in net sales, while the Grocery segment was down 3%. North America Retail composite market share advanced for the tenth straight quarter, with Pinnacle consumption up 1.4% in a category composite that declined. This outperformance drove a 60-basis-point increase in composite market share for the quarter, with 9 of our 14 businesses gaining or holding share.

We expanded our adjusted gross margin by 120 basis points in the quarter, fueled by productivity totaling 4.4% of cost of products sold, which outpaced input cost inflation of 2.7%. Also benefiting adjusted gross margin performance in the quarter was the impact of the Boulder Brands acquisition. Total operating expenses increased 24% and interest expense also grew considerably, both largely reflecting the impact of the Boulder acquisition. Adjusted diluted EPS advanced 15.2% to $0.53 for the third quarter versus $0.46 in Q3 last year.

Now, turning to our segments. The Birds Eye Frozen segment delivered another very strong quarter, with net sales advancing more than 4% and adjusted EBIT up 13.5%. This performance is particularly noteworthy given the very strong net sales growth of 15% and adjusted EBIT growth of 19% the segment delivered last year. In addition, retail consumption was up 3% for the segment in a category composite that was down, resulting in composite market share growth of 90 basis points.

Retail distribution or TDPs also expanded in the quarter, with the Birds Eye franchise and Hungry-Man up significantly. In terms of market share, each of the segments' leadership brands gained significant share in the quarter as did the Hungry-Man brand. Share for the Birds Eye Voila! and Birds Eye vegetables advanced 390 basis points and 130 basis points, respectively, versus year ago, while Gardein advanced 360 basis points on the strength of a 32% increase in retail consumption.

A particular highlight of the quarter was our slate of Frozen innovation, which included two entirely new platforms as well as the launch of new varieties for existing platforms. Starting with the new platforms. Veggie Made Rice is a new line of side dishes made from vegetables – in this case, cauliflower – that provide consumers with another convenient way to get more vegetables into their diets. The new platform which we discussed with you at the Barclays Conference in September, mimics the mouth feel and taste of rice without all the carbs. The four item line introduced into limited distribution in September will be expanded nationally in the first half of 2017.

We also introduced Birds Eye Signature Skillets frozen meals. This new platform is made with high quality ingredients, such as prime rib, shiitake mushrooms, and asparagus, and is priced at a 40% premium to Voila! Signature Skillets targets consumers seeking a healthier restaurant experience at home. The new platform recently introduced into limited distribution comes in eight varieties and will be expanded nationally in the first half of next year.

In terms of innovation against existing platforms, in September, we introduced four new varieties of flavorful vegetables, including three potato offerings, bringing to eight the number of new flavorful varieties introduced this year. We also introduced eight new varieties of Hungry-Man, six of which are additions to our premium Hungry-Man Selects line, bringing to 12, the number of Hungry-Man varieties launched this year.

Clearly, our Frozen segment has been quite active on the innovation front, particularly against Birds Eye, and we feel really good about the momentum we've built heading into the important holiday season. We remain highly confident that our accelerated pace of consumer-driven and category-expanding Birds Eye innovation, effective marketing spending, and strong retail execution will continue to drive our leadership in this large and expandable category.

Turning to Duncan Hines Grocery. Performance for this segment remained fairly consistent with Q2, with net sales down 3% and EBIT declining 2.5%. In an overall category environment that remains challenging, we continue to outperform in the quarter, growing our Grocery composite market share by 20 basis points and our overall TDPs by 2.2%. Our Wish-Bone salad dressing business and Armour canned meat performed well in the quarter, with both registering growth in net sales, retail consumption, TDPs and market share.

Wish-Bone strength was driven by our E.V.O.O. and Ristorante Italiano platforms introduced earlier this year, which continue to build retail momentum and consumer trial, while Armour strength reflected solid in-store merchandizing execution. On the other hand, the overall baking category remained challenging in the quarter, impacting our Duncan Hines business. Our focus on the premium end of the category with Perfect Size, while aggressively managing the fundamentals on the low end with our classic offering, enabled us to grow our market share by 40 basis points in the quarter.

However, towards the end of the third quarter, we did not repeat some promotional volume and we shifted our focus and promotional program out of late-Q3 and into mid-Q4, closer to the holidays. Taken together, this is likely to result in some near-term pressure on share and distribution in early Q4, which we expect to improve as the quarter progresses. Nevertheless, the actions we have taken to-date and the plans in place for 2017 give us confidence that trends in the baking business will continue to strengthen over the coming year.

As we've demonstrated since the IPO, we know how to run a diverse Grocery portfolio with businesses in challenged categories and are committed to taking the actions required to protect our franchises. We have clearly made progress in some areas, most notably in salad dressings and portions of baking, with more work to do in others, such as pickles and syrups, which also came under significant competitive activity in the quarter.

We remain confident that we can continue to apply our playbook on marketing and in-store execution to effectively manage this entire portfolio, enabling us to continue to deliver strong consistent results, including meaningful gross margin growth, solid top-line performance, and healthy share expansion, just as we did in Q3.

Turning to Specialty Foods. As we expected, this small segment remained under pressure for the quarter, despite solid growth for our snacks business, due to a heightened competitive bidding environment for the already low margin USDA stew business. We continue to expect Specialty to remain challenged through year end.

Turning to Boulder Brands. Boulder had another good quarter, contributing $121 million in net sales and continuing to track in line with our full year expectations. Adjusted EBIT in the quarter totaled $21.3 million, reflecting better than planned performance in manufacturing and logistics, as well as synergy capture that remains on track. From an adjusted EPS standpoint, after giving effect to acquisition-related interest expense and the impact of Boulder's higher effective tax rate, the business contributed approximately $0.04 to the quarter, bringing Boulder year-to-date adjusted EPS contribution to approximately $0.07.

Retail consumption for the quarter, excluding Smart Balance and the impact of discontinued SKUs, was up 3.1% with all brands posting growth. Smart Balance consumption was down in the quarter by approximately 13%, consistent with the improved trend in Q2. The integration of the business continues to proceed extremely well and is on track with our acquisition plan. The key milestone of transitioning Boulder onto the Pinnacle systems to enable one order, one invoice occurred as planned on August 1 with no issues. We also initiated the Boulder SKU rationalization project during the quarter, and you're beginning to see its effects in our net sales and consumption results as well as the benefit in our margins.

In terms of synergies, we continue to expect to achieve the two-year savings of $30 million that we communicated at the time of the acquisition and continue to build visibility to incremental savings beginning in 2018. In addition, you'll recall that last quarter, we increased our 2015 to 2017 adjusted EBITDA growth target for Boulder from 50% to 65%. Given the continued strength of Boulder Brands, we believe more upside to this EBITDA outlook exists, and we will update you with more specifics for both synergies and EBITDA growth in conjunction with our guidance for 2017.

And with that, I'll hand it over to Craig.

Craig D. Steeneck

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

Thanks, Mark, and good morning, everyone. Let me start with the results of the quarter, and then transition to our outlook for the remainder of the year. Starting with sales, our consolidated net sales increased 19.3% in the third quarter to $758.8 million, reflecting a 19% benefit from the Boulder Brands acquisition, higher net price realization of 0.2%, and higher volume/mix of 0.1%.

Net sales for North America Retail increased 0.8% in the quarter, reflecting favorable volume/mix of 0.5% and higher net price realization of 0.3%. Our Birds Eye Frozen segment delivered another very strong quarter, with net sales increasing 4.1%, fueled by higher volume/mix of 3.8% and favorable net price realization of 0.3%. As Mark mentioned, this strong performance is on top of the 15% net sales growth recorded in the third quarter of last year.

Net sales for our Duncan Hines Grocery segment declined 3% due to lower volume/mix of 3.3%, which was partially offset by favorable net price realization of 0.3%. Net sales for Boulder Brands totaled $120.9 million in the quarter, tracking in line with our full year outlook for the business. Finally, as expected, net sales for our Specialty Foods segment declined 3.4%, reflecting lower volume/mix of 2.4% and lower net price realization of 1%, due to private label canned meat.

Now, turning to adjusted gross profit. Adjusted gross profit grew an impressive 24% in the quarter, with margin advancing 120 basis points to 30.2%. This performance was fueled by strong productivity savings of 4.4% and the benefit of the Boulder acquisition as well as improved mix. These positive drivers were partially offset by input cost inflation, approximating 2.7%, and the investment to convert Birds Eye packaging to stand-up bags.

Looking ahead to Q4, we expect the relationship between productivity and inflation to be a similar tailwind as in Q3, with support for our key franchises during the highly promotional holiday period to be a headwind. All in, we expect a solid increase in gross margin for the fourth quarter, albeit, the smallest of the year.

Adjusted EBIT grew approximately 25% in the quarter to $135 million, largely driven by the strong growth in gross profit. Interest expense for the quarter, excluding the one-time cost of $600,000 associated with the repricing of the Boulder term loan, increased from $22.3 million in Q3 last year to $35.8 million, largely driven by the additional debt issued to finance the Boulder Brands acquisition, and to a lesser extent, the impact of the previously-communicated 25-basis-point interest rate step-up on the pre-Boulder term loans.

Our effective tax rate in the quarter, excluding items affecting comparability, came in at 36.4% versus 36.3% in the year-ago period. Adjusted net earnings increased 15% to $62.8 million, compared to $54.6 million in the year-ago period, while adjusted diluted EPS advanced 15.2% to $0.53, compared to $0.46 in the year-ago period.

Now, turning to cash flow. Net cash provided by operating activities in the quarter totaled $75 million, compared to $86 million in the prior year. For the nine-month period, net cash from operating activities totaled $240 million, compared to $211 million in the year-ago period. Capital expenditures in the third quarter totaled $16 million, compared to $37 million in the year-ago period.

We now expect full year CapEx in the range of $110 million to $120 million as we continue to take advantage of the favorable interest rate environment through the use of capital leases. Free cash flow at $58 million in the quarter was up $11 million versus Q3 last year, while on a year-to-date basis free cash flow advanced an impressive $37 million to $163 million.

Now turning to liquidity. At the end of the third quarter, our total debt was $3.2 billion, including $2.5 billion of secured loans and $700 million of Senior Notes. Cash totaled $165 million, bringing our net debt to $3 billion and our net leverage ratio to 4.5 times.

Before turning to our outlook for the year, let me provide an update on Boulder Brands. Boulder Brands remains on track to deliver 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 impact of the SKU rationalization, which includes all five of the Boulder businesses.

At the beginning of the third quarter, we communicated to our retail partners, the SKUs to be delisted, and we stopped servicing those items at the end of the quarter. The impact of this effort started to become visible in our retail consumption results in Q3 and will continue to have an impact through primarily the first half of 2017. Our synergy outlook over the 2016 and 2017 period remains very much intact and we have growing confidence that we will drive incremental synergies beyond this two-year time horizon. We continue to expect $14 million of the $30 million in synergies to benefit 2016.

We now expect adjusted diluted EPS for Boulder to be in the range of $0.08 to $0.09 versus the $0.07 to $0.08 communicated previously, driven by the segment's strong operating results. We believe that this strong operating performance will continue into 2017, and as Mark mentioned, more upside to the EBITDA growth target likely exists and we will provide an update on the outlook in conjunction with our guidance for next year.

We recently began the wind down and exit of the unprofitable Boulder UK private label business, which was contemplated at the time of the acquisition. One-time restructuring charges, if any, are expected to be immaterial and will be treated as an item affecting comparability. One-time integration costs for Boulder, which excludes the UK exit, continue to be estimated at approximately $30 million for 2016 and will be treated as an item affecting comparability.

And finally, in terms of our outlook for the year. Adjusted diluted EPS is now expected to be in the range of $2.13 to $2.15, which represents the higher end of our previous guidance range of $2.10 to $2.15. Input cost inflation for the year continues to be forecasted in the range of 2% to 2.5%, including Boulder Brands. Productivity continues to be estimated in the range of 3.5% to 4% of costs, including Boulder Brands organic cost savings, but excluding acquisition synergies.

Interest expense for the year continues to be estimated at approximately $140 million, including the 25-basis-point interest rate step-up on the pre-Boulder term loans. Our effective tax rate outlook, excluding items affecting comparability, continues to be estimated at or slightly above the company's 2015 effective tax rate of 36.6%, due to the higher effective tax rate structure for Boulder.

Weighted average diluted share count for the year continues to be estimated at modestly above 118 million shares, with the fourth quarter estimated at approximately 119 million shares. FX is expected to continue to be less of a headwind in 2016, with the impact estimated at about $0.01. And finally, as previously communicated, we are targeting our leverage ratio at year end to approximate 4.3 times, which is within striking distance of the important 4.25 times leverage threshold.

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

QUESTION AND ANSWER SECTION

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

Andrew Lazar
Analyst, Barclays Capital, Inc.

Q

Good morning, everybody.

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

A

Hi, Andrew.

Andrew Lazar
Analyst, Barclays Capital, Inc.

Q

Hey. Two questions, I guess. First one would be, with respect to Boulder accretion guidance, the full year guidance is now $0.08 to $0.09, implies about $0.01 to $0.02 in the fourth quarter. And I guess, I'm just trying to wrap my arms around a little bit – this is, I guess, well below the run rate that we saw in 3Q, but also below the average year-to-date contribution. And I think although I am not 100% positive, may be that Boulder has a seasonal weighting towards 4Q. So, I'm just trying to get a sense of whether that fourth quarter outlook is either maybe just conservative or maybe there is something discrete that's impacting that, that I'm missing?

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

A

Yeah. Andrew, good morning. I wouldn't say, there's anything discrete. I mean, all of our guidance relative to Boulder and EPS piece of it, number one, is affected by the tax rate we're charging it, which is $0.02 to $0.03 of our tailwind, because of the higher tax structure there. We've also penalized the Boulder business on EPS, if you want to call it with the debt plus the 25-basis-point interest rate step-up on the pre-Boulder term loans. So, it's probably slightly behind the run rate. I mean, we're feeling really good about the business. The performance has been rock solid. We previously had taken up the EBITDA guidance last quarter when we talked about it and feeling really good as we move into 2017-2018, but I wouldn't say, there is any anomalies relative to the fourth quarter.

Andrew Lazar
Analyst, Barclays Capital, Inc.

Q

Okay. Thanks for that. And then one broader Frozen question. It just feels like – and maybe I'm wrong, but it feels like in the broader Frozen category, not just sort of frozen vegetables, we've got just a lot more activity and focus, and really innovation, whether it's what KHC is doing in meals or the sort of turn around that Nestlé has been showing in its business or the overhaul that ConAgra plans to do. And so I guess, first, do you see it that way as well? And then, is that broader Frozen category innovation a good thing sort of for Birds Eye, neutral, or does it impact shelf space that you can get or not, or that frozen vegetables gets within that broader Frozen space. I'm just trying to get a sense of how that either impacts you or it doesn't?

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

A

Yeah. No. Andrew, it's a good question and one that we would agree with the observation that Frozen, in many ways, is going through a high degree of transformation. And certainly, it's coming from a variety of fronts, but I would suggest that the strength that Birds Eye has been able to demonstrate on what we've been able to do on both the frozen vegetables as well as the meals side has really brought some excitement back to the category and I think begun to evolve Frozen as an aisle – as a destination for both innovation and a little bit more balanced from what was traditionally less healthy or seen as lower quality. We've been able to, I think, bring a perspective that you can bring healthier products and new news that really matches consumer needs and relevance in a way that is stimulated, not just the categories, but the aisle.

I think, as we've talked before, one of the things that continues to make us very excited about the Birds Eye trajectory going forward is that we do believe that there is an opportunity for greater transformation on the adjacencies to frozen vegetables and meals as we see higher velocity, higher margin items being successful. I think, there is a lot of room to source space from things that are not performing as well, whether it's at the low-end of the price range or the margin range within the category or some of the, let's say, less healthier or less relevant offerings that are there.

So, I think from a Frozen perspective, this is a good thing. And I would say, we also continue to feel very good about our ability to lead. Remember now, we bring to bear in Frozen, not just Birds Eye vegetables and meals, also strength on Hungry-Man and a large portion of the Boulder franchise that we see a tremendous potential in this Frozen as well, so – and as well Gardein, which continues to perform quite well. So, that combination or that multi-pronged approach, I think, gives us an opportunity to really be a strong leader in the transformation that's occurring.

Andrew Lazar
Analyst, Barclays Capital, Inc.

Q

Thanks for that.

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

Evan Morris
Analyst, Bank of America Merrill Lynch

Q

No. It's actually, Evan. First question on Boulder. The consumption trends that you gave, I guess, ex-Smart Balance, ex-SKU rationalization, was kind of up low-single-digits. I guess, when you incorporate Smart Balance, it's maybe flat, up a little bit. I certainly understand the enthusiasm behind the business on the cost side and the synergy opportunity there, but I guess, we can just kind of talk about the consumption trends that you're seeing, how do they fit with what your expectations were. And then, I guess just another question on that is, you've got one quarter left, but you still have sort of a $20 million range in your guidance and just wondering, are you not able to narrow that, or are you able to narrow that at this point?

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

A

Okay. Thanks, Evan. So, I think I'll – let me take the Boulder question, and then I'll have Craig talk a little bit about the guidance question. So, I think on Boulder, let me just start by saying that, overall, the business is on a top-line basis very much in line with what our estimates and forecast was, and we continue to see us performing at a level that's quite consistent with that range that we projected. And as Craig mentioned earlier, we continue to outperform on the margin and the profitability side, which is a great platform to build off of.

I think the two drivers that are impacting a little bit near-term sales is the fact that the SKU rationalization we've talked about, you're beginning to see that impact, but you're also seeing the impact on margin as well. So, the whole point of this was to set the platform up for more profitable growth in the future and address a little bit of over-proliferation that we saw on some of the businesses. So, that's well underway.

I think the other area that is more short-term headwind that I expect in the fourth quarter to begin to move through is, in any transition like this there is a bit of a lull when it comes to promotion and innovation as we go through the transition. So, moving it from one sales force to another, getting everybody in place, getting all of the plans set up, there is no question that we've had a little bit of a lower level of promotion, and again, just less innovation than what we would have had historically.

As we come into the Q4, I would fully expect to see, with our team in place, the benefit of the Pinnacle sales force with those brands and businesses as opportunity to build momentum going forward. In the end of the day, the underlying potential of these businesses and where they sit within consumer spaces, we continue to be very bullish about this business from both a top-line perspective as well as a margin perspective.

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

A

And Evan, as I just said, first of all, relative – if you just kind of step down the P&L. The guidance range relative to net sales at $460 million to $480 million, we feel real good about. We're probably – we're lining up very close to the midpoint of that range. And there is perhaps some cushion in the first quarter or the fourth quarter expectation, but as we look at the overall company and look – we took the guidance range up to the upper end; there is a lot of activity that goes on in the fourth quarter on the base Pinnacle business in addition to Boulder. It is a promotional period. We're just making sure we have our powder dry and that we can get to the expectation, and feel that we're being prudent relative to the guidance that we've put out there.

And then, obviously, as you look at the sales trends, as we've articulated, the SKU rationalization program got announced early in Q3. They've stopped ordering towards the end of Q3. So, you're going to see a more dramatic effect of the SKU rationalization in the fourth quarter than you've seen in the run rate.

Evan Morris
Analyst, Bank of America Merrill Lynch

Q

Okay. No. That's helpful. And then, just a quick question on baking mixes. Just wondering, are you starting to see any impact at all – I know General Mills has talked about pulling back trade promotion. I don't know, again with your promotional plans as well, are you starting to see any shift in that competitive dynamic? And as you look at the category – because I guess when we see the scanner data, it doesn't look great. Has the category kind of re-based enough at this point given the promotion pulling back, or do you anticipate just some more noise and volatility, and a little bit more volume weaknesses with some of these changes in promotional activity continue to be implemented?

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

A

Well, certainly given some of the rhetoric that we've heard, we would expect a bit more normalizing of promotional activity. The fact is we really didn't see that in the third quarter. If you look at underlying pricing in the category, it actually declined. And as I said before, any time there is a pricing strategy evolution, it takes time to ripple through given the timelines and planning, programming going forward. And I think in the last call we talked a little bit about more of an expectation of Easter and seeing that normalize.

But I will say that there were quite aggressive price points out there, especially in the latter part of the quarter. And again, what we do quite well is we navigate that fluctuation; we're not going to chase unprofitable volume, but we will continue to manage within that environment and keep doing what I think is most important to the category to address your broader question, which is continuing to build relevance in baking; bringing consumers back to the behavior. I feel very good about our focus on Perfect Size and the range of offerings that we have that enables us to continue to bring new news and higher margin businesses into the segment, which benefits, I think, both the consumers and retailers both.

But given what I've seen at the end of the quarter, I'm expecting aggressive price points into Q4, and as we mentioned in the call earlier, we do have some shifting of promotional volume. So I think what you'll see is a little bit of a tougher October, but then building momentum as we really anchor our programming around the holidays going forward. But again, just to conclude on a positive note, as I look at this category, I think the combination of our good fundamentals paired with what I believe is a very good pipeline going forward into 2017. I think we can continue to expect to see some improvement in this category going forward.

Evan Morris
Analyst, Bank of America Merrill Lynch

Q

All right. Great. I'll pass it along. Thank you.

Operator: Our next question is from David Palmer of RBC Capital. Your line is open.

David Palmer
Analyst, RBC Capital Markets LLC

Q

Thanks. Good morning.

Maria Sceppaguercio
Senior Vice President, Investor Relations & Communications, Pinnacle Foods, Inc.

A

Good morning, David.

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

A

Good morning, David.

David Palmer
Analyst, RBC Capital Markets LLC

Q

Good morning. Just a follow up on that promotion spending question. I would imagine that most of the change we saw in promotion mix and the net revenue impact from that was planned for Q3. And you signaled that just as – perhaps even a timing mismatch between Q2. Perhaps the other direction with net revenue gains and gross margin improvement in that quarter better than we had expected. But is any of this that we're seeing and even the commentary with your seasonal adjustments and promotions, a change in the tone of the industry where things are getting a little bit more promotional as we're getting longer in the tooth in the food inflation cycle? And I have a follow up.

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

A

Yeah. I think, that's what we're maintaining a very good and close pulse on. Our ability to navigate in this category has been predicated on both our ability to work the top tiers of the business bringing innovation in news, while also reacting to the lower end, which is where traditionally you see a lot more of the promoted activity. I still don't think that the long-term trajectory on this category is for more aggressive pricing at the bottom end of the range. But there is no doubt that in the end of this quarter and as I would expect to see into early next quarter, I do think price points will be aggressive.

And so, what we will do, is what we always do, is evaluate that balance between protecting the margin in the franchise, put the right and most effective programming in place to ensure that we remain competitive while we continue to distort resources and focus to the upper end of the range, which is where we still believe the long-term potential of the category resides. But I do think that this is a trend that we got to be nimble and reacting to, while also making sure that we maintain the commitment that we've had to making sure the margin stay in the right place.

David Palmer
Analyst, RBC Capital Markets LLC

Q

Thanks. And just a follow up on Boulder. You've done SKU rationalization and you're setting up for supply chain footprint savings into 2017. I'm wondering with regard to the innovation side and the marketing side, behind some of the big brands there, Smart Balance, Udi's, how – Wish-Bone innovation didn't come right away. I'm wondering how big 2017 could be for a new plan for those brands? Thanks.

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

A

Yeah. I think we've got a good balanced plan for those businesses where – again, I think of it is kind of a good balanced attack between aggressive and some really good marketing programs. Also benefiting from the scale of this portfolio, I think, is an opportunity that we can unlock in the marketing space that perhaps has not been as utilized in the past, while also driving, what I would call, smart and margin accretive innovation to complement the portfolio we have.

There is no question as we go through 2017, we'll run through the course of SKU rationalization, so you'll still have a bit of a negative driver headwind on TDPs. But what we will be adding from an innovation standpoint will be highly relevant, and as I've said, accretive to the portfolio which will be an important principle that we'll be applying going forward. So, I guess, it's a broad way to say that we would expect momentum to improve both on the marketing side as well as on the innovation side as we exit this year and go into 2017.

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

A

But David, your point about the sequencing is spot on. The first year out of the acquisition deal with the one order, one invoice systems integration and deal with the SG&A savings. We've set up the supply chain footprint change there, consolidating co-packers, and then working on the SKU rationalization. So, that was all in tandem with our plan and as we start to come into the first half of 2017 and beyond, as the SKU rationalization is behind us and the supply chain improvements occur, you'll see some acceleration of the profitability of this business into 2017 and 2018, and improvement in the top-line as Mark talked about.

David Palmer
Analyst, RBC Capital Markets LLC

Q

Thank you.

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

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

Q

Hi. Good morning.

Maria Sceppaguercio
Senior Vice President, Investor Relations & Communications, Pinnacle Foods, Inc.

A

Good morning, Chris.

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

A

Hi, Chris.

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

Q

Hi. I had two questions for you, if I could. The first would be, in relation to your guidance you gave – when you talked about this last quarter when you raised the overall guidance for the year, you mentioned having some kind of flexibilities into strengthen your investment spending. I'm just curious, I wasn't able to tell fully from the comments, have you really executed against that? Are you seeing some areas where you're able to really strengthen your investment spending in the second half?

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

A

Yeah. I think we're right on plan what we expected to be through Q3. I think when we talk about flexibility and where the greatest competitive timeframe is, it is more in the fourth quarter. And as we look at the fourth quarter, we feel very comfortable with where we're positioned from our base programming and the plans we have in place, as well as the right amount of flexibility to make sure we can address anything competitively that, that we need to, to be ready to make sure that we keep the momentum going on these franchises going through the fourth quarter and into the first quarter. So I think, overall, I would say, right in line with where we want to be in Q3 with that flexibility still there to help us be ready for where we would expect a greater level of competitiveness which is really more in the fourth quarter.

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

Q

Okay. That's helpful. Thank you. And then, just one quick follow up to Boulder. And just want to understand from a big picture standpoint as you performed and completed the systems integration in August, does that start the process of achieving more synergies and like that – it was kind of, they had to be in place before you really started to accelerate the level of synergies for the business, so such that it should improve from this point forward? Is that a fair way to look at it?

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

A

That is a fair way to look at it. I mean, that's a big piece of the upfront synergies was getting the Boulder business on to the Pinnacle platform. And what that means is, all of the accounting is done in our shared service centers, accounts payable, accounts receivable, all of the billing, the order collection. The Boulder business is now in our logistics, in our warehousing platform. So, yeah, that's a big trigger point in terms of the acceleration of the synergies. And then, obviously, as we move into 2017, you will see a greater percentage of the synergies coming through the supply chain, the cost of goods line and you will in the SG&A side.

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

A

Yeah. I guess, just to build on on that, what's helpful about where we are in the journey is that it allows us now to really focus on the operational excellence of the business, both on a top-line and on a bottom-line standpoint. So, as we navigate through a lot those transitional activities, it allows us now to really get focused on driving this business and optimizing it, kind of across the playbook, if you will, from Pinnacle to Boulder. And I think that's where we continue to remain very bullish about the outlook and the future of the business.

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

Q

Okay. Thanks for the time.

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

A

Thanks, Chris.

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

A

Great. Thanks, Chris.

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

Farha Aslam
Analyst, Stephens, Inc.

Q

Hi. Good morning.

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

A

Good Morning.

Maria Sceppaguercio
Senior Vice President, Investor Relations & Communications, Pinnacle Foods, Inc.

A

Good Morning, Farha.

Farha Aslam
Analyst, Stephens, Inc.

Q

First question is on Frozen innovation. Could you just give us some color on what ACV you achieved when you talk about limited distribution versus a national rollout, and just kind of timing around when as reset that retailers for that Frozen case please?

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

A

Yeah. That's a – the two are somewhat related in the question. So, when we talk about limited distribution on some of these early rollouts, I would say, we normally run somewhere around 25% ACV about a quarter, where we're able to quickly roll out some of the new somewhere between 25% and 30%, and an opportunity to get some early reads, some early learning, and some early placement. As we know, Frozen as an overall category tends to reset more in the spring timeframe and that's where you pick up the broader distribution. But we have found that the success of our innovation is enabling us to move it faster to shelf than perhaps where we were historically, where it was very difficult to get things anything in outside the cycle. But I think if you demonstrate good performance on what you're launching into the category, we've had more luck in moving quicker, but it's still a two-step process. So, about a third and then as we go into spring, national distribution happens pretty quickly after that.

Farha Aslam
Analyst, Stephens, Inc.

Q

That's helpful. And then, as we look out into 2017, any early color in terms of what inflation we could expect and what productivity we can expect on that gross margin line?

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

A

Sure. So, Farha, as you said, it is a bit early and we'll come out with our full guidance for 2017 in February when we do the year end call. But in terms of inflation for this year, we started with a range that was at 2% to 3% and we've narrowed it down to, calling it, 2% to 2.5%, so low-2%s. As you look out to 2017, on a preliminary basis, we're still somewhere in that 2% to 3% range, it might be slightly higher than the low-2%s that we've experienced this year. And as you can see in 2016, we're certainly building on the productivity cost savings, 4.4% in the third quarter and kind of around about that same percent for Q4. So, above 4% in the back half of this year.

You should look – and again, we started the year with guidance on productivity at 3% to 4%, and narrowed it to the top end of the range at 3.5% to 4%. You should expect us to be around about that 4% range as we continue, that's kind of our underlying operating model that we've had last couple of years and there is no reason to believe that that can't be at least that and/or accelerate for the future.

Farha Aslam
Analyst, Stephens, Inc.

Q

That's helpful. But just – what is causing the inflation into next year? Anything particularly inflationary to cause the 2% to 3% increase? Does that includes labor?

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

A

It does, that when we talk about our inflation guidance, that's all in cost of goods. So, that's all of the input costs, that's labor on our manufacturing facilities, that's all of the logistics and warehousing and freight costs. The big reason for the delta, Farha is, if you recall from last year, we had an out – or the industry had an outstanding season on the agricultural side, and for us, that's Birds Eye vegetables, that's our smaller fruit business, also applies to Vlasic. So, with a very solid crop season year ago, those positive costs affected the P&L in the back half of last year and for the first full half of this year. And as you're looking at the crop – the 2016 crop year, I think there's going to be a little bit more inflation in the agricultural portfolio than we've experienced in this year. That's probably the largest driver.

Farha Aslam
Analyst, Stephens, Inc.

Q

That's very helpful. Thank you.

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

A

Thank you, Farha.

Operator: Our next question is from Ken Zaslow of Bank of Montreal. Your line is open.

Kenneth Bryan Zaslow
Analyst, BMO Capital Markets (United States)

Q

Hey. Good morning to everyone.

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

A

Hi, Ken.

Maria Sceppaguercio
Senior Vice President, Investor Relations & Communications, Pinnacle Foods, Inc.

A

Hi, Ken.

Kenneth Bryan Zaslow
Analyst, BMO Capital Markets (United States)

Q

Just a – first, big picture question. As you have gained through the Boulder acquisition, as you're seeing the new innovation coming on, at what point do you start to reevaluate your long-term growth targets and is there any sort of plan for doing that?

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

A

Well, as we said in September, as you look at this portfolio and the shape of it, we certainly expect it to be in a position, where we've got 50% of it now in health and wellness, certainly the addition and our bullish outlook on Boulder continues to be encouraging. And so, we do expect that our contribution from growth is going to continue to strengthen.

When we're together in December, we'll talk a lot more about the Boulder business and how we're looking at that. But I think you're certainly – your instinct is right, that as we look at this portfolio going forward, we see a better profile and thus then, an opportunity to improve in that area. And again, like I said, we'll talk a little more about the detail or the building blocks there. But overall, yes, with Boulder coming online, we certainly see an opportunity.

Kenneth Bryan Zaslow
Analyst, BMO Capital Markets (United States)

Q

And my second question is, you touched on a little bit, but can you give us a little bit more of a game plan for what you're looking to do, and then – not in the next quarter, not in the next two quarters, but how you're thinking about turning around the pickles business, the baking mixes business, any other slow businesses, and is it getting the dedicated resources to be focused on turning this around? I mean, think about what you did with Hungry-Man. I mean, are there opportunities that you're looking at, again, a year to two years out?

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

A

Yeah. No. Let me talk a little bit about it. One of the things I'll just say is a kind of broad overview after watching the business now operate for a couple quarters, is that I really remain impressed with our ability to navigate some challenging categories. We've talked a lot about the strength of our playbook and at the heart of it is really this idea or opportunity that we drive momentum on businesses that are doing well, and then quickly respond to the competitive or category challenges that we're seeing, while protecting the financial foundation of this business through gross margin and cash. And I think, Q3 was an excellent example of that where we drove the strength on Frozen and Wish-Bone, while we navigated some of those competitive challenges that we mentioned on pickles and syrup.

And so, I would tell you that as we get into what we're going to address, let me first just say that the – let me give you a little bit of specifics on what the competitive pressure was in the quarter, and then I'll talk about what we're doing going forward. So, on pickles in particular, the good news on pickles is that our base Vlasic business is very stable, and in fact, if you look at base Vlasic branded in the quarter – were positive. If you look at where the decline and the headwinds came from, it was primarily in the Farmer's Garden line, which is a relatively small part of our business, but it came under a lot of competitive pressure from new items and pricing.

So, as we go forward, we want to keep driving that core business, while we also recognize the opportunity to bring news in areas that are highly consumer relevant. So, we do have a team – and you gave a great example of Hungry-Man, where we are able to bring a cross functional team of resources quickly together to focus on where the challenges are coming from and how we drive the business and put it on the right trajectory. But I think underlying on Vlasic, the problem is a little more isolated than a broader category or business issue. But regardless of that fact, we're going to put the same energy and the same focus to make sure that our plans going forward are strong.

On syrup, more of the challenge for us was a particular loss of lower profit distribution in club on the Mrs. Butterworth's business. But I would say, overall, on the category in syrup, it has been under pressure for a good portion of this year. So, we're going to again tackle both the challenge of growing the brands, but also simulating the category. We've done – we've had a lot of success as you've watched us do this on Wish-Bone as well, where we're able to bring news in the key season and partner with the right folks to really drive news around the breakfast occasion.

And I think, as we do that, while continuing to strengthen brand offerings like GMO-free that we rolled out on Log Cabin, I think those are the kind of moves we'll make that will stimulate the category while improving the trajectory. But, at the end of the day, this is kind of what we do at Pinnacle. We do this really well, where we're able to move resources and teams despite being a lean infrastructure to really address the issues, get good plans and deploy them rapidly, so that we're able to address these challenges going forward. And that's just what we're going to do on those businesses going forward.

Kenneth Bryan Zaslow
Analyst, BMO Capital Markets (United States)

Q

Great. Thank you very much.

Operator: Our next question is from Michael Gallo of C.L. King. Your line is open.

Michael W. Gallo
Analyst, C.L. King & Associates, Inc.

Q

Hi. Good morning.

Maria Sceppaguercio
Senior Vice President, Investor Relations & Communications, Pinnacle Foods, Inc.

A

Good morning, Mike.

Michael W. Gallo
Analyst, C.L. King & Associates, Inc.

Q

Two questions, if I may. First, a bigger question for Mark. I know you've been there now five months. I guess when you look at the gross margin profile of the business, it seems there is an enormous opportunity to move that towards the mid-30% range from the low-30% range. I was wondering what you see in terms of the opportunities to bridge that gap? How much you think comes from new innovation? How much is it from potential SKU or brand rationalization like you're doing with Boulder? And how do you – what do you see as the biggest drivers in terms of getting there? Thanks.

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

A

Yeah. Thanks. Clearly, as we talked about quite a bit about in September, a major focus in – and a big part of the success of Pinnacle has been our ability to drive margins and manage cost and do it really across a variety of levers. And I think as we talk about amplifying this playbook going forward, that's exactly the way we're going to continue the trajectory moving – by a balanced approach where we're able to manage costs effectively, use favorable mix as a driver, good disciplined pricing in trade, and continuing to up our game on productivity.

As I said before, I think one of the opportunities that we have, as you look at the total portfolio and after we've gone through a variety of sequential acquisitions, the opportunity to drive scale through our network, whether it'd be on the logistics or the manufacturing side, are both opportunities for us to drive upside. Also, as you think about our ability to harmonize on the procurement side across those businesses, I would say there is opportunity there as well. Although we're in a tough pricing environment, we will continue to drive mix and look for good ways in which to get the most out of our trade spending as a contributing factor to that profile as well. So, as we've said before, we don't see a structural reason why we shouldn't be able to progress this gross margin. We've certainly demonstrated that we can do it up to this point and we would expect to continue that going forward.

Michael W. Gallo
Analyst, C.L. King & Associates, Inc.

Q

Thank you.

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

Eric Larson
Analyst, The Buckingham Research Group, Inc.

Q

Yeah. Good morning, everyone. Thanks for taking my question.

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

A

Hi, Eric.

Maria Sceppaguercio
Senior Vice President, Investor Relations & Communications, Pinnacle Foods, Inc.

A

Hi, Eric.

Eric Larson
Analyst, The Buckingham Research Group, Inc.

Q

This is kind of tied into a little bit of what Michael just asked, but as you kind of look across maybe Duncan Hines' parts of it, parts of – obviously, with Boulder now with your SKU rationalization and Specialty, is that it's probably pretty fair to say that you're trading sales for margin, which I fully believe in and it's showing in your gross profit margins, are there any big initiatives like outside of Boulder, which is pretty clear what you're doing there, that you have some long runways to kind of still reposition your portfolio to the benefit of margin? I guess, what inning do you think we're in, in terms of just kind of see the – the sales rates that we've been seeing kind of for the last three quarters or four quarters? Are we in the middle of the game; are we at the beginning? Close to the end? And how would you kind of characterize that?

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

A

Well, the first thing I would say, I would categorize our performance as solid on the top-line. You look at the performance that we've brought in the third quarter on our Frozen business and the continued strength we've seen in share, relative to some of the categories that are a little more challenged, I feel very good about our performance. I would describe our approach much more around profitable growth, than necessarily trading sales for profit. I think there is a little bit of a difference there, and a couple of things that I'd point to.

First, I think the discipline around margin accretive innovation has been a big part and a big enabler for us to drive improved mix. I'll point to the Duncan Hines business, where only a few years ago, the entire business was in this lower margin kind of a base classic tier, where margins were disadvantage to the portfolio overall. And by building the premium segment and creating really an entirely new space, we've been able to move that margin up to be more in line with the averages. And so, I think you will see us continue to focus on opportunities like that one. I would say, we've also done that well on both the frozen vegetables as well as what we've done with some of the innovation on Wish-Bone as well, and Hungry-Man, with the creation of the Select line.

Now, having said all of that, we will continue to scrutinize the right trade-offs that we make relative to spending and/or SKU rationalization. So, although, I would say that when we looked at Boulder, we saw the bigger opportunity in a more straightforward way, there is no question that as we go through our portfolio, we're continuing to look for opportunities as well. So, as far as where are you in the journey, I think it's probably an ongoing journey for us, but it's certainly one where we will continue to make good smart choices on driving profitable growth while making sure that that margin expansion that we believe is very much an opportunity for us going forward we can deliver.

Eric Larson
Analyst, The Buckingham Research Group, Inc.

Q

Yeah. I think that's a fair way to characterize it. The one very specific question, you sited that your sales for Smart Balance. When you talk about Smart Balance, are you talking about the combination of both the Smart Balance brand and the Earth Balance or was that sales number that you quoted just for the Smart Balance brand?

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

A

It's just for the Smart Balance brand. And again, that in many ways is where more of the challenge has been. And again, as we said today, although not where we wanted to be yet, we're making progress on the business and as we look at plans going forward, I think we can continue to improve that trajectory going forward. While the Earth Balance business, highly relevant, plant-based spreads continues to grow and we see a great runway for that going forward as part of our broader plant-based lifestyle focus as part of our health and wellness strategy.

Eric Larson
Analyst, The Buckingham Research Group, Inc.

Q

Right. So, when you take the combination of Earth Balance and Smart Balance, the combined revenue decline isn't anywhere near that percentage, it's a lot better that that.

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

A

It's certainly better. I mean, the Smart Balance business is significantly larger than the Earth Balance business, but the dramatic difference in the trajectories certainly would balance that profile on a total spreads position better than what you're seeing on the Smart Balance numbers.

Eric Larson
Analyst, The Buckingham Research Group, Inc.

Q

Okay.

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

A

And Eric, as we've articulated before, we're going to manage Smart Balance more as a foundation brand, very similar to the way we've managed a lot of – some of the businesses on the lower end on Grocery and Frozen, that's going to be managed more out of Parsippany, where we have a lot greater expertise in managing that foundation portfolio. Earth Balance, what its linkage to Gardein in the plant-based side along with the Gluten Free components with Udi's and Glutino, that will be managed out of our Boulder headquarters.

Eric Larson
Analyst, The Buckingham Research Group, Inc.

Q

Okay. Great. Thanks, everyone. I appreciate the clarity.

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

Carla M. Casella
Analyst, JPMorgan Securities LLC

Q

Hi. I think most of my questions have been asked and answered. But when you talked about the brands that you took the write downs on, you talked quite a bit about syrup. Is there something else in the other categories, the pizza and the pretzel, where you're just seeing slower growth or is it just lower margins than you had originally expected or – and is that something that you see turning or addressing like syrup or are those potential brands that you can also sell?

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

A

So Carla, just to clarify, the write down we took was on Celeste pizza, Aunt Jemima frozen breakfast, and a very small one down on Snyder. So, it wasn't the syrup business. And that $11 million write down that we took is on the tradenames, which is based 100% on revenue, not profit. The cash flow component of all the brands and the goodwill component, we had write down on and there was lots of cushion. So, it's been consistent on what's transpired in the last couple of years on the foundation side of the portfolio with Celeste, with Aunt Jemima, and with Snyders. Those brands are little bit under pressure in terms of the top-line, not so much on the margin side.

Carla M. Casella
Analyst, JPMorgan Securities LLC

Q

Okay. Great. That's helpful. And then, just given – you have talked about some of your growth focuses, are you considering – do you have brands in the portfolio that you would also consider exiting to help fuel or invest in growth of the growth brands?

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

A

Well, look, uptil now, we certainly haven't, because all of those brands generate – have a solid margin, generate a solid cash flow, and those brands contribute – keeping the lights on and providing the cash flow to be able to invest behind the growth of your leadership brands that are in the portfolio. So far, we have not viewed that as something that is value accretive to us. But look, we're constantly looking at the portfolio and if the circumstances change, we certainly would consider that.

Carla M. Casella
Analyst, JPMorgan Securities LLC

Q

Okay. Great. Thank you.

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

A

Thank you, Carla.

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

Maria Sceppaguercio

Senior Vice President, Investor Relations & Communications, Pinnacle Foods, Inc.

Hi, everyone. It's Maria. Thank you, Tyron. Thanks for listening in today. I'm around all day, don't hesitate to give me a call.

Craig D. Steeneck

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

Thanks, everybody.

Mark A. Clouse

Chief Executive Officer & Director, Pinnacle Foods, Inc.

Thank you.

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.