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# Pinnacle Foods, Inc. (PF)

Q1 2017 Earnings Call

# CORPORATE PARTICIPANTS

Maria Sceppaguercio
*Senior Vice President-Investor Relations, Pinnacle Foods, Inc.*

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

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

# OTHER PARTICIPANTS

Andrew Lazar
*Analyst, Barclays Capital, Inc.*

Kenneth B. Goldman
*Analyst, JPMorgan Securities LLC*

Bryan D. Spillane
*Analyst, Bank of America Merrill Lynch*

Matthew C. Grainger
*Analyst, Morgan Stanley & Co. LLC*

Jason English
*Analyst, Goldman Sachs & Co.*

Robert Moskow
*Analyst, Credit Suisse Securities (USA) LLC*

Rob Dickerson
*Analyst, Deutsche Bank Securities, Inc.*

Steven Strycula
*Analyst, UBS Securities LLC*

Brian P. Holland
*Analyst, Consumer Edge Research LLC*

David Palmer
*Analyst, RBC Capital Markets LLC*

# MANAGEMENT DISCUSSION SECTION

**Operator**: Good morning, ladies and gentlemen, and thank you for standing by. Welcome to the Pinnacle Foods Incorporated Earnings Call for the First Quarter ended March 26, 2017. 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 Sceppaguercio
*Senior Vice President-Investor Relations, Pinnacle Foods, Inc.*

Thank you, Howard. Good morning, everyone, and thanks for joining us today. Earlier this morning, we issued our press release for the first quarter of 2017, which is available on our website. As indicated in the release, we delivered a strong quarter and reaffirmed our outlook for full year adjusted diluted EPS in the range of $2.55 to $2.60. This outlook continues to include about $0.05 benefit to our effective tax rate from the change in accounting treatment for stock-based compensation.

As we've discussed with you previously, this new accounting treatment will create volatility in the tax rate due to a number of factors. And as we saw in Q1, the exercise of stock options, in concert with the strength of our stock price drove a greater benefit than we expected. We believe some of this benefit was timing related versus activity we expected to occur in the back half of this year. We'll update you on our full year tax rate outlook on next quarter's call, following the significant upcoming vesting period in Q2, which we expect to inform our thinking on the full year rate.

As previously communicated in early-February, we refinanced our senior secured credit facilities, and in a related follow-on transaction, we terminated and replaced our interest rate swap contracts. These actions significantly lowered interest expense beginning in February of this year, and both have been fully reflected in our interest expense guidance for 2017. Earlier this week, we announced a management reorganization that leverages experienced Pinnacle executives, namely Mark Schiller and Mike Barkley, in expanded commercial roles. These changes are expected to enhance our organizational effectiveness and efficiency. And finally, beginning this quarter, we have incorporated the businesses from the Boulder Brands acquisition into our IRI database and reporting, consistent with our new segment structure.

Here with me to discuss the results of the quarter and our outlook for 2017 are Pinnacle's CEO, Mark Clouse; and our CFO, Craig Steeneck. Before turning it over to Mark, let me remind you, that as usual, 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 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 in a meaningful comparison and an appropriate basis for a discussion of our performance. Details of the excluded items are included in the reconciliation table, included in our press release and are discussed in detail in our 10-Q, which will be filed later today.

In addition, 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 risk and uncertainties is contained in the company's filings with the SEC.

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

## Mark A. Clouse

*Chief Executive Officer & Director, Pinnacle Foods, Inc.*

Thanks, Maria, and thanks to everyone for dialing in. We had a good start to 2017, delivering Q1 results very much in line with our expectations. We continued to navigate the challenging environment quite well, enabling us to deliver top-line growth, even excluding the net impact of the carry-over benefit of the Boulder Brands acquisition and the shift of Easter.

We also continued to win in the marketplace, with our composite market share for the quarter advancing 80 basis points, this represents our 12th consecutive quarter of composite market share growth. Our share growth has been achieved in an industry environment that, at least on the surface, looks weaker in early-2017. As you know, there's no shortage of theories attempting to explain what has caused the slowdown. I believe that the recent softness has been driven by several factors, none of which alone are large enough to fully account for it, but collectively, I believe these factors have had an impact. Starting with the timing of Easter, which shifted business in some categories out of Q1 and into Q2.

For Pinnacle, the largest impacts occurred in vegetables, seafood and baking. Another factor is the historically warm January and February we experienced this year. While I personally hate to blame the weather, I have seen time and again how that really does affect purchasing behavior. Just think about the stock up mentality in advance of a snowstorm, which we had in March, helping to mitigate the warmer first two months of the year. And finally, I also believe that the continued shift from traditional to unmeasured channels, not tracked by IRI or Nielsen, has been a factor in the retail data that we all see. We now have IRI data through Easter, which eliminates the noise related to the timing shift, and our composite retail consumption growth exceeded 2% on a year-to-date basis through April 16th. Needless to say, we are feeling pretty good about where we are right now.

Turning to some highlights of the quarter. Net sales advanced 1.6% with Boulder and Grocery segments posting growth, partially offset by the anticipated lower sales for the Frozen and Specialty segments. We expanded our adjusted gross margin by 120 basis points in the quarter, fueled by productivity totaling 4.1% of cost of products sold, which outpaced inflation at 2.9%. Also benefiting the gross margin performance in the quarter were Boulder synergies, partially offset by investment in our baking portfolio, including the launch of Duncan Hines' Perfect Size for 1.

Total operating expenses declined 1%, largely due to synergies, as well as the timing of marketing investment, given the Easter shift and our robust innovation agenda that this year more heavily weights to the second quarter. Our gross margin expansion, coupled with our operating expense discipline, drove a double-digit increase in adjusted pre-tax earnings. Add to that, the outsized benefit we had this quarter from a lower tax rate, which came in at 32.5%, and adjusted diluted EPS advanced a strong 25% to $0.50 versus $0.40 in Q1 last year. So, all in, we feel good about how we started the year and we remain confident in our outlook for 2017.

Now, turning to our segments. Starting with Frozen. As expected, the segment had a slow start to 2017, with net sales down 2.9%, due to the exceptionally strong performance of Birds Eye in the fourth quarter last year as well as the shift of Easter into Q2. In addition to Birds Eye, the Easter shift also impacted seafood, due to the later timing of Lent. We continued to expand our retail distribution for the Frozen segment, posting a 7% increase in TDPs for the quarter. This growth was fueled by a double-digit increase for the Birds Eye franchise and continued distribution expansion for Hungry-Man. Supporting this growth was the continued roll-out of Birds Eye Signature Skillet Meals, Birds Eye Veggie Made Rice, and new Hungry-Man Selects varieties, all of which were launched into limited distribution in the fourth quarter 2016.

Market share performance for the Frozen segment continued to be very strong, advancing 0.6 of a share point for the quarter. This growth was driven by Birds Eye vegetables, which was up 1.7 share points and our Birds Eye Voila! and Signature Skillet Meals businesses, which combined were up 1.9 share points. To maintain our momentum behind Birds Eye, in early-April, we began the roll-out of five new product platforms. Specifically, we launched Birds Eye Vegetable Pasta, a line of side dishes made from zucchini, spinach and lentils that mimic the taste and mouth feel of pasta, while reducing the carbs and delivering a full serving of vegetables.

Birds Eye Super Food Blends, a line of nutrient-rich side dishes that combine ingredients, such as quinoa, chickpeas, edamame, spinach, barley and kale, among others, to deliver great-tasting side dishes in a convenient Steamfresh bag that would otherwise be hard to make at home. Birds Eye Mashers, a line of consisting of mashed cauliflower side dishes that delivers a mashed potato taste and texture, along with a mashed sweet potato item. Birds Eye Organic, a limited offering of organic vegetables for mainstream consumers seeking this option. And finally, Disney-themed Birds Eye Voila! meals for kids, extending the Disney license into Voila! meals for the first time. Adjusted EBIT for the Frozen segment advanced 4% in the quarter and adjusted EBIT margin expanded 110 basis points, reflecting strong productivity, partially offset by the impacts of input cost inflation and a lower sales.

Now, turning to our Grocery segment. Net sales for Grocery advanced 3.4%, driven by double-digit growth on the Duncan Hines brand. This growth was fueled by improved merchandising, leading up to Easter, as we continued to strike the right balance of constructive pricing and in-store activity to remain competitive during key seasonal windows. In addition, momentum is building on our 18 item launch of Perfect Size for 1, which began rolling out at the end of February and will achieve national distribution by the end of the second quarter.

This ultra-convenient, single-serve baking solution is made with real simple ingredients that are baked in a mug, in the microwave, in one minute. While it's still very early in the launch, initial consumer reaction has been exceptionally strong. As this new product taps into consumer needs for convenience, portion control and individuality, it also eliminates the category challenges related to the decline in household size.

Also posting strong growth for the Grocery segment in the quarter was Armour canned meat, partially offset by Vlasic pickles. Over the past several months, competitive intensity in the pickle category has increased in the form of pricing and innovation, putting some pressure on Vlasic. Our innovation and in-store support for the brand is rolling out in the second quarter, which we expect to strengthen trends for the business in the second half of the year.

During the quarter, we also introduced Wish-Bone avocado oil salad dressing in three varieties. This new line adds to our presence in the premium segment of the category with on-trend healthier oils, and is a great example of the balance we are working to strike between gross margin expansion and growth. As you know, the dressings category is extremely competitive and we will continue to be thoughtful in making the appropriate tradeoffs between innovation, pricing and productivity to optimize our results.

Market share for the Grocery segment advanced 0.4 of a share point, largely driven by the strength of Duncan Hines and Armour, partially offset by Vlasic and our syrup brands. This performance was supported by retail distribution expansion approximating 4% for the segment, led by Duncan Hines, Armour, syrups, and Wish-Bone. Adjusted EBIT for the Grocery segment advanced 14% in the quarter and adjusted EBIT margin grew 200 basis points, reflecting the benefits of the net sales growth and strong productivity, partially offset by input cost inflation.

Turning to the Boulder segment. This segment started the year with net sales up 21%, driven by the three-week carry-over benefit from the Boulder Brands acquisition and growth on the base business. Despite the ongoing impacts of the SKU rationalization program and the wind-down of the Boulder UK operations. Driving the base business growth were gardein and EVOL. The new Hagerstown plant for gardein is now up and running and we are shipping products from the plant to customers. During the quarter, we closed our Range Street facility in Boulder, which produced EVOL and moved production to both our Fayetteville facility and co-packers.

Market share in the quarter for Boulder was essentially even with year-ago, despite the impact of the SKU rationalization program with gardein, Earth Balance and EVOL posting growth. Market share for Udi's and, to a lesser extent, Glutino, were down in the quarter, reflecting the SKU rationalization impact, as well as additional competition in gluten-free, given the attractive growth characteristics of this consumer space.

As we have discussed with you previously, we believe the real unlock in key gluten-free categories involves eliminating the compromise on taste and texture to broaden the appeal to a much larger consumer base. We believe we have the experience and the capabilities to make this a reality. Adjusted EBIT for the Boulder segment advanced 44% in the quarter and adjusted EBIT margin grew 210 basis points, reflecting the benefits of the net sales growth and synergies, partially offset by modest input cost inflation.

Finally, turning to our Specialty segment. Specialty, as expected, posted a net sales decline for the quarter, due to a decline in private label canned meat, stemming from the lower sales of USDA stew and the exit of the gardein private label business. Adjusted EBIT for the Specialty segment advanced 21% in the quarter and adjusted EBIT margin grew 230 basis points, reflecting the benefits of productivity and the reduction in lower margin sales, partially offset by input cost inflation.

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 for the quarter, and then transition to our outlook for the remainder of the year. Net sales for the first quarter increased 1.6% to $766.1 million, driven by a 2.9% benefit from the three extra weeks of the Boulder Brands ownership versus the prior period, higher net price realization of 0.4%, and favorable foreign currency translation of 0.1%. Partially offsetting these drivers was lower volume/mix of 1.8%, predominately reflecting the shift of Easter from the first quarter of 2016 to the second quarter of 2017.

Net sales for our Frozen segment decreased 2.9% in the quarter, as expected, reflecting lower volume/mix of 4.3%, largely due to the impact of our Easter timing on the Birds Eye franchise and our seafood brands, as well as the anticipated volume pressure relating to the exceptionally strong Birds Eye performance in the fourth quarter of 2016. Partially offsetting these anticipated downward pressures were higher net price realization of 0.8%, acquisition carry-over benefit of 0.4%, and favorable foreign currency translation of 0.2%.

Net sales for our Grocery segment increased 3.4%, driven by the volume/mix of 2.1%, largely reflecting the strong performance of the Duncan Hines brand and acquisition carry-over benefit of 1.9%. Partially offsetting these favorable drivers was unfavorable net price realization of 0.6%. Net sales for our Boulder segment advanced 21.4%, largely reflecting acquisition carry-over benefit of 19%, as well as higher volume/mix of 1.7%, and favorable net price realization of 3.8%. Partially offsetting these growth drivers was a 3.1% decline stemming from the previously communicated wind-down of the Boulder Brands UK operations. And, finally, net sales for our Specialty segment declined 4.5%, reflecting lower volume/mix of 4.4% and lower net price realization of 1%, partially offset by acquisition carry-over benefit of 0.9%.

Now, turning to adjusted gross profit. Adjusted gross profit grew 6.2% in the quarter, with margin advancing a solid 120 basis points to 28.5% of net sales. This performance was fueled by strong productivity savings of 4.1% and the benefit of net sales growth, partially offset by input cost inflation approximating 2.9%. We continue to expect to finish 2017 with an adjusted gross margin improvement that positions us well towards achieving our stated objective of 300-basis-point to 400-basis-point improvement by 2019.

Over the three-year period, it is likely that some quarters will be stronger than others, based on a number of factors, including the strength of the base period gross margin comparables, the timing of innovation and related new product introductory expenses, and the relationship between productivity and inflation, to name a few of the larger factors. A great example of these factors coming together in a powerful way would be the second quarter adjusted gross margin improvement we experienced in Q2 last year.

You may recall that 260-basis-point gross margin improvement we reported in that quarter. This outsized performance was fueled by almost 4% productivity compared to only 1.5% inflation, along with the benefit of favorable net pricing. The point is that the stars really lined up for that performance last year. And while we fully expect gross margin growth in Q2 this year, the comp is likely to keep a lid on the magnitude, while the second half of 2007 (sic) [2017] gross margin improvement will step back up.

Adjusted EBIT grew 12.8% in the quarter to $120.5 million, largely reflecting the growth in gross profit, lower operating expenses, and Boulder synergies. The latter of which remain very much on track with our $15 million synergy target for 2017, split just about evenly between gross margin and SG&A.

Adjusted interest expense for the quarter decreased by 1% to $31.3 million, reflecting the partial quarter benefit of the successful refinancing of the company's term loans in early February of this year. The adjusted interest expense excludes one-time refinancing costs approximating $50 million, comprised of the write-off of $29 million of non-cash deferred financing and original issue discount costs, as well as $21 million in cash costs for the early retirement of the interest rate swaps associated with the old term loans.

Our effective tax rate in the quarter, excluding items affecting comparability, came in at 32.5% compared to 37% in the year-ago period, largely reflecting the new accounting treatment for stock-based compensation that Maria discussed earlier. It is important to emphasize that the adoption of this new accounting standard will cause volatility in the effective tax rate, based on vesting schedules for which we have complete visibility, and more importantly, for option exercise activity for which we have very limited visibility.

Because the first-ever vesting of our long-term equity incentive plan will occur in Q2 this year, which we continue to expect will significantly reduce our Q2 ETR versus year ago, we plan to update you on the full year ETR outlook on next quarter's call. Adjusted net earnings increased 27.1% to $60.2 million compared to $47.4 million in the year-ago period, while adjusted diluted EPS advanced 25% to $0.50 compared to $0.40 in the year-ago period.

Now, turning to cash flow. Net cash provided by operating activities in the quarter totaled $63 million, compared to approximately $77 million in the prior year, largely reflecting the impact of the termination of the interest rate swaps in connection with our February refinancing, as well as working capital. Capital expenditures in the first quarter totaled $29 million, compared to $34 million in the year-ago period. Free cash flow at approximately $34 million in the quarter was down approximately $9 million versus the year-ago period, driven by the decline in net cash provided by operating activities.

Turning to liquidity. At the end of the first quarter, our total debt was $3 billion, including the new $2.3 billion secured term loan and $700 million of senior notes. Cash totaled $141 million, bringing our net debt to $2.9 billion and our net leverage ratio to 4.16 times. And finally, in terms of our outlook for the year. We continue to expect adjusted diluted EPS in the range of $2.55 to $2.60, representing growth of 20% versus year-ago at the midpoint of the range.

The impact of a later Easter in 2017 is expected to shift approximately 2% of net sales and approximately $0.01 of adjusted diluted EPS from the first quarter to the second quarter. We expect the lion's share of this impact to affect the Frozen segment and, to a lesser extent, the Grocery segment, due to the seasonal nature of those portfolios. The benefit of the 53rd week is expected to add approximately 1% to the full year net sales and $0.03 to adjusted diluted EPS. This impact will be spread across all four segments in the fourth quarter of 2017.

Input cost inflation for the year continues to be estimated in the range of 2.5% to 3%. Productivity for the year continues to be estimated in the range of 3.5% to 4% of cost of products sold. This estimate excludes the $15 million of Boulder Brands acquisition synergies that will benefit both gross margin and SG&A overhead.

Adjusted net interest expense continues to be forecasted at approximately $123 million for the year, and as previously mentioned, the effective tax rate for the year, including the benefit of the new accounting standard for stock-based compensation, remains at approximately 35%. This anticipates that the second quarter rate will approximate the first quarter rate, with the second half considerably higher. We plan to provide an update on this during our second quarter call.

The weighted average diluted share count for the year continues to be approximated at 120 million shares, with the second half of the year higher than the first half. And finally, capital expenditures for the year are now estimated to be in the range of $115 million to $125 million, reflecting timing of projects.

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

# QUESTION AND ANSWER SECTION

**Operator**: [Operator Instructions] Our first question or comment comes from the line of Andrew Lazar from 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.

Maria Sceppaguercio
*Senior Vice President-Investor Relations, Pinnacle Foods, Inc.* A

Good morning, Andrew.

Andrew Lazar
*Analyst, Barclays Capital, Inc.* Q

Hi. Two questions, one on Frozen and then one on Boulder. Around Frozen, I know April is obviously a key selling time for the category as a whole. And so, I guess on that, I'm just trying to get a sense of with pretty finite Frozen shelf space, if you will, and all the platforms you've got coming out, I guess, where is all that space coming from? I assume part of it is from less productive Birds Eye SKUs that you kind of proactively take out. But, is some of this coming from just increased space and facings for Birds Eye? I'd be worrying on that.

And then, this is the first selling season, I think, where really the key competitors potentially able to be a lot more aggressive around some more meaningful new products as well, and I know you've talked about that and anticipated it. But anything around that, where it may be, where that's – is it all coming from private label or how does this shelf space piece work out? And then I've just got one on Boulder.

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

Okay. Yeah. So, let me tackle the Birds Eye and the Frozen question first. I think there is three primary sources of distribution or space, if you will, for the innovation that we're rolling out. The first one is, as we've said before, there remains a variety of redundant items that sit in this space. So, if you're in any particular outlet, you can see four different types of basically frozen corn or peas. And I think the first wave of opportunity is to really help the customer and retailers understand that what is needed to optimize the mix within this section does not require those redundant items. And that's – and in many cases, they happen to be very low margin or low profitability. And so, to sell and being able to find space at the expense of those items is kind of the first order of business.

I think the second order of business as we've talked as well, I think, with the demonstrated success of many of the Birds Eye items we've launched, I think we're making the stronger case now that the adjacent categories to us, they also present opportunities. So, if you think about $0.99 single-serve meals, where there's not a lot of profit or margin in there, the relevance is declining. That becomes yet another source for us to find opportunity within the broader freezer or frozen section to add space and create room for what we believe are significant trade ups, if you will, in items relative to profitability, relevance, and velocity.

And then the third is, as you mentioned, there will be times where we've launched a variety of platforms over the last couple years, we always will look at the velocity to make sure as good category captains, which we are now in most retail environments, that will make the appropriate trade-offs, and as we think about the destination, always mindful of what the right items are. So, although, there may be some trade-offs, I do think the first and second sources will be the bigger option.

As far as having another player in the mix, I continue to say and believe that the opportunity on frozen vegetables is big enough that there is room for multiple players. And as one might expect in understanding what they are lapping, especially on a two-year stack basis, I would expect to see some improvement. But as we've gone through the first quarter and as I mentioned in my comments, we do have Easter now, so for through three weeks of April year-to-date, our frozen vegetable business is up almost 4%, and we've added 1.7 share points. We feel good, we feel good about where our position is, and that's really before the innovation fully rolls in. So, although, we respect all of our competitors as we should, we'll be in a posture of defense where appropriate. I continue to believe there's room for players that have the same vision of adding value, while we remain the leader with the clear vision and direction going forward.

## Andrew Lazar
*Analyst, Barclays Capital, Inc.*

Q

Got it. Thank you very much for that. That's really helpful. And then just quickly on Boulder. How much of the $15 million in incremental synergies were realized in the quarter? And if I've missed that, I apologize. And then, with the new leadership at Boulder, just would love your thoughts on may be what the skill set is there that Michael Barkley brings to the table there, and how that's consistent with I guess the priorities that you see for that business going forward?

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

A

Sure. So, Andrew, I'll take the first one. The $15 million of synergies, we realized $15 million last year, expectation is that we'll deliver $15 million for this year. Again, split evenly between gross profit and SG&A, that comes in pretty well pro rata throughout the year. So, take 25% of the $15 million and that's in the ballpark.

## Andrew Lazar
*Analyst, Barclays Capital, Inc.*

Q

Got it.

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

Yeah. So, Andrew, on Mike and our confidence and commitment to him in that role, I think he's bringing a variety of experiences. So, as you know, he's been a major player in building the architecture and the framework for Birds Eye, which clearly has been our most successful transformation on the business and has been a key driver of our growth going forward. And I think it was rooted in a very strong understanding of consumer insight and reading the macro trends to position this brand in the right spaces to have the greatest impact. Very similar to what I would say the requirements are on the Boulder businesses to be successful now as we come through the tunnel of integration and really begin to step back up the innovation and marketing engine to be able to drive growth on those businesses.

I think what Mike also brings uniquely to the party is that he knows the Pinnacle model and the Pinnacle business very, very well. And as we continue to look for opportunities across these franchises, so that an enterprise view could unlock what I called horizontal costs, but really the ability to look across our different franchises and look for places where we can simplify process or drive harmonization and cost savings, I think, Mike is uniquely qualified to bring a great set of experiences and perspectives that will help us along on that journey.

Andrew Lazar
*Analyst, Barclays Capital, Inc.*
Q

Got it. Thanks very much.

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

Thanks, Andrew.

**Operator**: Thank you. Our next question or comment comes from the line of Ken Goldman from JPMorgan. Your line is open.

Kenneth B. Goldman
*Analyst, JPMorgan Securities LLC*
Q

Hey. Good morning and thank you.

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

Hi, Ken.

Kenneth B. Goldman
*Analyst, JPMorgan Securities LLC*
Q

More of a broad question. There's been a lot of articles in the media lately, hearing about grocers increasing pressure on some of their food vendors in terms of pricing and terms, et cetera. I'm just curious, is this something that you're experiencing on a broad basis? We're hearing some mixed things about how, I guess, true some of these stories are. I'd just love to hear your thoughts on maybe the situation.

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

A

Sure, Ken. Well, as you know, we've been in a period now – I would say, an extended period, where delivering pricing has been more difficult than it had been in previous periods. I think you also have the introduction to a couple of competitive dynamics in the marketplace, whether it'd be e-commerce or whether it'd be deeper discounters that are in the marketplace today, which I think has created some challenges for how to match up with low-cost providers and low-price providers in the marketplace. And I do think there is an added pressure to make sure that as we're partnering with retailers that we're providing these win-win solutions where we understand what the competitive landscape is, we understand what it takes to be – to manage our margin and our growth aspirations, while also being very mindful of the situation that they're in.

So, our ability to change some of these paradigms, whether it'd be through added value and innovation, while being very prescriptive and balanced in our approach on pricing, I think has been a good playbook for us and one that we've done quite well with. If you think about even the most recent launch of Perfect Size for 1 on the baking, in the Duncan Hines business, I think that's a great example of us continuing to find a way to change the conversation, and hopefully, make it more, again as I said before, a bit of a win-win situation. But I do think recognizing that there will be a pressure in the space on pricing really means that we've got to be all over the fundamentals of the business, really understand how the price gaps look, I think where the private label may play a bigger role in some of these categories going forward, which we are seeing in certain spaces. But our formula and the fact that we've remained consistent in providing the right support for these brands and categories, I think go a long way in helping us navigate these conversations.

Kenneth B. Goldman
*Analyst, JPMorgan Securities LLC*

Q

That's helpful, Mark, and I do appreciate that. I guess if I could just follow-up a little bit.

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

A

Sure.

Kenneth B. Goldman
*Analyst, JPMorgan Securities LLC*

Q

I guess, more specifically, are we – it sounds like, what you're saying is that, as long as you run a smart playbook and do what the customers and the end consumers want, then you'll be fine, but it's always tougher in a more competitive environment. I guess I'm just trying to get a sense within that context, and I do appreciate what you said. But I'm trying to get a little bit better sense for how severe some of the competition is right now. Because some of the media will make it seem like there's a, quote, war going on between Amazon and Walmart, and I'm not trying to talk about any customers in particular. I'm just trying to get a better idea of how severe it is or whether you think we're sort of in a normal range of just heightened competition here?

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

A

Well, yes, Ken, I certainly don't want to oversimplify the answer. I think, again, as we've talked many times before, as you're running a portfolio, you are going to have some places where you're going to feel a greater level of pressure on pricing than others, whether that comes through competitors or whether that comes through a conversation or a position taken by one of our customers. I think, again, you're going to have that and I would say, it's a heightened environment, as I said in the beginning. And so, I don't think it changes though dramatically the playbook that we want to deploy.

Again, we continue to look for these opportunities where we can bring alternatives to just having a conversation about straight pricing, we try to recognize where the right profitability levels are, but in some cases, you may see us making trade-offs or decisions, not to chase price points that we think are not constructive or unprofitable. But in other circumstances, I do think you'll see us making choices relative to what's the right way to remain competitive and being in a position where we can take advantage of merchandising and programming that's important, especially in key seasons as we navigate this going forward. So, again, I don't want to oversimplify the answer to it, but I don't think it's a dramatic change in our strategic direction. It's probably just a more pronounced moment to really be on top of it.

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Kenneth B. Goldman
*Analyst, JPMorgan Securities LLC*
Q

Understood. Thank you.

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**Operator**: Thank you. Our next question or comment comes from the line of Bryan Spillane from Bank of America. Your line is open.

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Bryan D. Spillane
*Analyst, Bank of America Merrill Lynch*
Q

Hey. Good morning, everyone.

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

Hi, Bryan.

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Maria Sceppaguercio
*Senior Vice President-Investor Relations, Pinnacle Foods, Inc.*
A

Hi, Bryan.

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Bryan D. Spillane
*Analyst, Bank of America Merrill Lynch*
Q

Excuse me. Two quick ones for me. First, Craig, can you just remind us on phasing, when do we sort of lap or the negative effect of the wind-down in the UK, the USDA stew business, and also the exiting of the private label? Just where – what points in the calendar do we begin to kind of lap that they're not a drag anymore?

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

Sure. So, first on the private label stew and canned meat in the Specialty segment, we exited that business in the second quarter of last year. So, the first quarter of this year has got the negative comp in it, that should start to even itself out for the rest of the year. And then the wind-down of the Boulder UK business occurred really in kind of late-Q3, early-Q4, so you're going to have a little bit of a drag on that for the next couple of quarters, but it's kind of fully out of the results in Q4.

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Bryan D. Spillane
*Analyst, Bank of America Merrill Lynch*

Q

Okay. And then the second question. Just in terms of the Birds Eye platforms that are rolling out, I think maybe you touched on this in the answer to last question, but are those all priced at a premium to sort of your baseline on Birds Eye? And where are they in terms of price points relative to some of the other sort of value-added Birds Eye products you have now? I guess, it sounds like they're more premium products, and I'm just trying to get a sense as to whether or not that's going to be reflected in the price point.

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

A

Yes. You're correct. And I think, again, although it sounds like a lot of platforms coming into the section, you are starting to see us really shape the category with a couple tiers of price points, added value sides as a broader frame of reference where we now have protein blends, we now are introducing super foods. These will – we believe they will operate as kind of a destination with similar price points, all of which that operate at a premium level relative to core Steamfresh veg or base Frozen veg. And again, I think that is part of – the strategy is to bring greater relevance for consumers, but also increasing the profitability of this category and section for customers is one of those big enablers as I was answering Andrew's question earlier, for making the case on why eliminating some of these base redundant items makes sense for the customer as well as for the consumers.

Bryan D. Spillane
*Analyst, Bank of America Merrill Lynch*

Q

Okay. Thank you.

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

A

Great.

**Operator**: Thank you. Our next question or comment comes from the line of Matthew Grainger from Morgan Stanley. Your line is open.

Matthew C. Grainger
*Analyst, Morgan Stanley & Co. LLC*

Q

Hi. Good morning, everyone. Thanks for the questions.

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

A

Hi, Matt.

Matthew C. Grainger
*Analyst, Morgan Stanley & Co. LLC*

Q

First question, a few of your competitors have talked about the fact that the number of assets and brands becoming available for sale is broadening out a bit. So just, from your perspective, curious whether that's the case and how you'd assess the quality of the opportunities that are out there at the moment?

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

A

Well, I think as we talked a couple different times over the last year, I think, there was a fair amount of expectation that this year would bring some movement in the industry, as you think about last year being a relatively quiet year. I think you're beginning to see that. And I think that across the range of offerings that are out there, of course, as you might imagine, I think they all have different strengths and weaknesses. I think from where we sit, the way I would kind of categorize our position right now and the best way to describe it, I think, is kind of three things: vigilant, ready, and disciplined. And on the vigilant side, those assets as they become available, as you would expect, we're going to evaluate. Part of the power of bringing Michael Levitt on board to strengthen our team and really, our point of view in making sure that, if there are assets that meet our criteria, count on us to be looking closely and understanding the value and the quality of the assets.

I think on the ready side, as we've said multiple times, we are through the integration of Boulder. Craig has done a masterful job on leverage and we're in a great position of readiness on all fronts to be able to take advantage of the right asset, which kind of leads me to the third bucket, which is discipline. And, again, I think we start from a position where we feel really good about our organic plan that doesn't necessarily force us into a need for a deal, especially one that we might overpay or stretch beyond where we should. So, you're not going to see us do that. We're going to use the same criteria that we've been using all along where we're looking for adjacencies in our categories. We're looking for number one or two brands. We look for things that we can integrate efficiently, effectively, and quickly. And so, we will be aggressive when the right elements are there, but disciplined in how we approach it. And I think that's probably the best way to kind of categorize our take on the situation right now.

Matthew C. Grainger
*Analyst, Morgan Stanley & Co. LLC*

Q

Okay. Thanks, Mark. And just one follow-up, I appreciate the commentary on consumption trends through mid-April. Just curious if you could give us a little bit more color on what consumption looked like during the quarter through April in the Frozen and the Grocery segments, how shipments were tracking relative to consumption? And in Grocery in particular, was there any meaningful inventory build from the Perfect Size for 1 launch that could unwind a bit next quarter?

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

A

Yeah. So, it's a great question and anytime you've got a holiday that kind of falls the way that it did, it becomes a little less scientific about exactly where the pipeline sits between Q1 and Q2. Here is the way I would describe on broad strokes, now with the consumption and the better part of April shipments, I can give you a pretty good perspective. So, I think if you're looking at Q1 in isolation, what you would have seen is perhaps a little lighter Easter shipments on Birds Eye than we might have expected. But as you see April unfold, you see that true up, and with consumption year-to-date running at around 4% and our Voila! business approaching closer to 9%, we feel great about that and I think you will see a little bit of a benefit as we had pointed out on where the shift of Easter is.

I think the combination on the Grocery business, in particular the Duncan Hines brand, I do think you saw pipeline beginning to increase a bit the shipment number in the first quarter. But when you see the consumption in April on Duncan Hines on both the base and the new product item, which is double-digits, you're going to see that although there may be a little bit of pipeline build that was in the first quarter, we're feeling good about that not necessarily impacting that franchise going forward. However, I think overarching where we were a little lighter on Frozen, a little bit higher on Grocery in Q1 you may see that balance a little bit as we get into Q2. Does that help?

Matthew C. Grainger
*Analyst, Morgan Stanley & Co. LLC*

Q

It does. Thanks again, Mark.

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

A

Thanks, Matt.

**Operator**: Thank you. Our next question or comment comes from the line of Jason English from Goldman Sachs. Your line is open.

Jason English
*Analyst, Goldman Sachs & Co.*

Q

Hey, guys. Thanks for squeezing me in.

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

A

Hi, Jason.

Jason English
*Analyst, Goldman Sachs & Co.*

Q

Congratulations on sort of defying gravity this quarter in a pretty tough environment out there. A couple questions, kind of housekeeping-oriented. The quarter is pretty clean, so not a lot to pick at. But cash flow, there was some working capital leakage that was bigger than we're expecting. Can you give us a sense if it's just timing or not and what your outlook is for free cash flow for the full year?

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

A

I would say, Jason, it's mostly timing oriented. Obviously, there was some cash out in the quarter associated with the refinancing activity. We are carrying a little bit more inventory as we go into the seasons around the vegetable business, obviously, with all this new innovation that's coming out. But I don't see it being materially different from year-ago. And the overall cash flow kind of forecast, we had an enormously strong performance year-ago at free cash flow, and our expectation is, we'll get pretty close to that in 2017.

Jason English
*Analyst, Goldman Sachs & Co.*

Q

And that's a lot of cash, but you're not buying back shares. You're allowing sort of the stock or the option creep to come in with share count grinding higher. Why not deploy some of that to – at a minimum, offset some of the option creep?

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

A

Well, as we've been clear all along in terms of our priorities around cash management, I mean as part of the refinancing, we also paid off about $200 million of debt. So our priorities were to delever post the Boulder acquisition, which we've now done and in the process of doing. With the balance sheet reloaded, to articulate

Mark Clouse's point, we're certainly ready as it looks to M&A activity. We've continued to increase the dividend to give shareholders riding along with us in terms of the improvement in profit. But at this point in time, we do not have a share buyback program authorized by the board. Perhaps something to consider down the road, but we certainly want to deploy it against debt and kind of M&A activity.

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Jason English
*Analyst, Goldman Sachs & Co.*

Q

Thanks. Last question and then I'll pass it on. Gross margins for the full year, you gave some color in terms of quarterly cadence. What's your expectation for the full year?

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

A

Well, consistent with what we said that we want to generate 300 basis points to 400 basis points over the next three years, which would imply around about 100 basis points of improvement on an annual basis, maybe a little bit more, that – 2017 is consistent with that three-year program.

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Jason English
*Analyst, Goldman Sachs & Co.*

Q

Thanks a lot, guys.

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

A

Thank you, Jason.

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

A

Thanks, Jason.

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**Operator**: Thank you. Our next question or comment comes from the line of Robert Moskow from Credit Suisse. Your line is open.

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Robert Moskow
*Analyst, Credit Suisse Securities (USA) LLC*

Q

Hi. Thank you for the question. I'm trying to forecast out Boulder's growth rate, and I guess what surprised me a little bit in first quarter is to see pricing up of 3.8%, that's good news. But I understand there is – like you said, there's not a lot of pricing going on in the industry. So, did you take a price increase on items within Boulder? And also, just going forward, should I think of this as a good volume story because of the strong demand for the healthy products and for what you're launching or is it really like 2018 that maybe you're going to be able to come to the market with more innovation for what you acquired? Thanks.

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

A

Yeah. Great. So, let me first start on the pricing side. Part of what, as you know, our strategy has been is to kind of of turn off the faucet on some of the proliferation of a variety of SKUs that weren't adding profitability as we've been executing the SKU rationalization. In Q1 of last year, we are getting to lap a little bit of the slot, again the cost associated with that, which is helping improve the outlook a bit on pricing. So, I wouldn't think of it as a lot of list price increases that are going on in the business today, I would just say it's a more thoughtful approach and deployment of how we're managing the business going forward.

And to talk – now to answer the bigger question which is, okay, how do we feel about Boulder and where are we on the journey? I would tell you that, I think, you've got a variety of factors that are going on right now that will kind of shape the outlook for 2017 and begin to set up the runway as we exit the year into 2018. Clearly, executing and completing the SKU rationalization initiative is something that we believe is really important and it is really shaping the base business now in a way that we're beginning to get ready to move on, expanding distribution on the core items that we're keeping, while also kind of redirecting our attention to good profitable innovation.

I don't think you will have to wait till 2018 to begin to see that, right? I don't think we're – we're moving now, and how that phases in as we cycle the SKU rationalization, certainly, I think you'll see more of that as you get to the latter part of the year. And as you look at the portfolio today, I guess I would just say the good news is, you've got a gardein business and an EVOL business that are very, very healthy and that are growing rapidly, and we're going to continue to fuel those while we address where some of the bigger needs are, which is really in the gluten-free space, and addressing some of the competitive pressure there and really orienting around the strategy of eliminating compromise.

One of the things that as we continue to dig deeper in the business, there's really four areas in gluten-free that if we can truly eliminate that trade-off, I see tremendous road ahead and we're not going to wait around to begin to address these areas: it's snacking, it's bread, it's pizza, and it's pasta. Those four areas make up the lion's share of dollars within gluten-free. And across each one of those, we've got some great either products that exist today or initiatives in place, where we believe we can meaningfully change what the expectation should be for what gluten-free is. And I think with that in place, we see a much broader appeal across consumers and also a better position competitively, which is where we're feeling a lot of the pressure right now.

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

And Rob, one thing for sure...

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**Robert Moskow** Q
*Analyst, Credit Suisse Securities (USA) LLC*

Okay, thanks. I'll – go ahead, Craig.

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

I just wanted to add, Rob. So, I mean, that was all the commentary relative to the top-line. I mean the EBITDA for the business remains nicely ahead with the acquisition model that anticipated the Boulder business in 2015 at around about $60 million, $62 million of EBITDA. We said we're going to add $30 million of synergies at 50% improvement, we've updated that guidance at 85% improvement. So, we're looking at a Boulder business EBITDA for 2017 in the range of $110 million to $115 million. So, it's delivering on all cylinders relative to the overall profitability model.

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**Robert Moskow** Q
*Analyst, Credit Suisse Securities (USA) LLC*

Okay. I'll have to pass it along. Thank you.

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

Okay.

**Operator**: Thank you. Our next question or comment comes from the line of Rob Dickerson from Deutsche Bank. Your line is open.

Rob Dickerson
*Analyst, Deutsche Bank Securities, Inc.*
Q

Thank you very much. Just two housekeeping questions, the first is just from the top-line. I know, obviously, there's this Easter shift to Q1, and there's this SKU rationalization on Boulder. But is there any way to give us some kind of clear, more defined guidance as to what you think that normalized organic sales growth rate could be this year? And given long-term guidance is always in line or a little bit better than the categories, but considering the pressure we're seeing in the first quarter and increased competition, just in general you've discussed, trying to get your feel as what you think you can do, it's just kind of like a flattish year or maybe this is more around like 1% to 2%? Thanks.

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

Well, as you know, we do steer clear of giving a lot of direct guidance relative to growth numbers. I think as you look at the second quarter, you are going to have a variety of factors that are at play. On the one side, you're going to have the benefit of the Easter shift, no question, and building momentum on Duncan Hines Perfect Size for 1 along with the innovation platforms we just announced on Birds Eye, all of those are going to support the business in a positive way.

I think on the other counter position, I think that as you might imagine, part of what influences these numbers tends to be where your concentration of innovation is, at least from a slotting standpoint, we've got a lot of innovation that's rolling out in Q2 and that will have a – or play a factor in it as well. And it is an environment right now that has a lot of competitive pressure. It's – again, I would tell you that as we see April come in, we're feeling certainly better about the overall industry, but as I mentioned in my comments, I think, it will be a tough environment. So, I guess, the best way I would tell you is we don't expect to take any quarters off here. We're going to continue to drive performance that we believe is exceeding the run rate of our categories. We like that share position that we're driving in our categories and I think, again, you should expect to see that as more of a consistent delivery through the year.

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

And Rob, just as a reminder, and we've laid it out in our guidance obviously, there's three extra weeks of Boulder performance in the first quarter and then we do have the, quote-unquote, luxury of a 53rd week in 2017. So, those will affect the reported net sales.

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

That's true. Yeah, right.

**Rob Dickerson**
*Analyst, Deutsche Bank Securities, Inc.*

Q

Okay. Great. And then just quickly on the Grocery segment. I know you had mentioned right there some innovation being pushed in Q1, coupled with some of some the deceleration of the Easter shift in Frozen, and we're seeing a little bit of the mix shift – kind of a seasonal mix shift in Q1. But do you expect that to be a little more balanced as the year goes forward?

But just overall, with the innovation you have on Duncan right now, I mean, it sounds like you're saying that – even though it's a little bit more balanced going forward that maybe the Grocery segment relative to, let's call it, the past two years, the expectation is it actually does better and actually could be a higher margin business for you than we've seen historically and could potentially be a higher contributor to overall profit. Is that true or is it – this is still probably a little bit more heavily weighted on Frozen going forward or is Grocery kind of bringing up the tail end, so to speak?

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

A

Yeah. It's a great question and, again, never a simple answer. It's a pretty broad portfolio, as you know, in Grocery. I think if you kind of peel apart the pieces a bit, I would tell you that we feel very good about the Duncan Hines brand for this year. I think the innovation and the fact that we've got, what I would say, a little bit better balance this year in the merchandising and kind of, let's call it, the key seasonal window participation, I feel very good about the outlook for that business going forward. As I mentioned, we do have some competitive challenges in a couple of areas, we're working hard on the Vlasic and the Wish-Bone businesses to make sure that we get the right balance between appropriate competitiveness while not chasing price points that are going to hurt us on margins. So, I would expect as those are from time to time, you'll see some volatility in that space. Continued strength on our Armour business – I think in totality what I would tell you is, I still think our Frozen business, if you look at it top to bottom, is where more of the growth and the strength will come from. But I do think a more balanced approach in Grocery is part of what we're working on. And certainly, we expect that to come with some profitability as we continue to add good margin accretive innovation.

And guys, I think one of the things that I don't talk a lot about that I do think is really a point of difference for Pinnacle is the strength and the ability of our selling organization. As we have built that capability over time, I think it's given us a real position and an advantage in navigating some of these choppier waters. Whether it's the relationships and customer planning that we've been able to do or truly the blocking and tackling that we're doing at store, I think that gives us an advantage, even as the waters become choppier and being able to navigate it. And I would put our capabilities up as really best-in-class.

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**Rob Dickerson**
*Analyst, Deutsche Bank Securities, Inc.*

Q

Okay. Great. And then very quickly, Craig, just on the tax rate. I know Q1, Q2 a little bit lower than expected. Guidance hasn't changed. You said the back half will be up much higher. Is there expectation that maybe there could be some tax benefits for the year relative to original guidance or are you sticking with your guidance that the back half just weighted will be high enough that there isn't? Thanks.

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

A

Yeah. Rob, it's a little bit kind of too early to call.

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Rob Dickerson
*Analyst, Deutsche Bank Securities, Inc.*

Q

Okay.

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

A

I mean the new accounting for the stock-based comp – it's the first quarter we've had to account for it that way. It certainly came in at 32.5%, a little bit better than our expectations. The second quarter is a big quarter for us, a meaningful quarter with a big equity vest, and the accounting standard was always going to have some variability and volatility to it. So, we're going to see how Q2 comes in. We're going to analyze it at that point in time. There's no doubt that second half will be higher than the first two quarters, and we'll take our view relative to the full year guidance on the Q2 call.

Rob Dickerson
*Analyst, Deutsche Bank Securities, Inc.*

Q

Okay. Great. Thanks for all the time.

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

A

Thank you.

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

A

Yeah. Thanks, Rob.

**Operator**: Thank you. Our next question or comment comes from the line of Steven Strycula from UBS. Your line is open.

Steven Strycula
*Analyst, UBS Securities LLC*

Q

Hi. Good morning. Two questions. The first would be a private label question for Mark, and then I have a follow-up for Craig. You mentioned on Ken's question that you've seen private label share encroach in a few select categories. When we peel back the onion in Nielsen, what are those categories?

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

A

Well, it's – we have 19 categories that we participate in, and we've seen some improvement in private label across 13 of them. So, it's pretty broad reach. However, what I would say is that in many cases, it maybe off a relatively small base or in most of those – as you can do the math of our composite share growth – we're growing share at the same pace, if not faster. So, I think the reality is is that our engagement or our interaction with private label as I look – and of course, it's category by category is the way you have to go about this, overall, I feel good.

There's a couple of places where I think we've got some work to do to make sure that we've added the appropriate value that we've been able to separate and create the right price-sized architecture to be in a stronger position. But I do think you will continue to see the private label presence, and in some cases, increasing in certain categories. But the great news is our game plan for how we've gone about reinvigorating these iconic brands puts us in a better position than maybe some of the other players who have really been focused on taking pricing or trade out or not innovating or not supporting the brand. So, again, this is going to have to sharpen some people's pencils competitively on what you're doing, but I feel very good about the work that we've put in place to do it. And count on us to be looking, again, in each of these categories individually to make sure we've got the right strategy in place.

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Steven Strycula
*Analyst, UBS Securities LLC*

Q

All right. And then a quick question for Craig. You've done a series of acquisitions in both Frozen and shelf-stable categories. Can you discuss which temperature class offers greater synergies opportunity given your supply chain and why? And when you kind of take a look at the pipeline that's coming down, how do you think about the difference in longer-term for the portfolio between synergy-rich deals and then revenue-enhancing deals that take you to a higher net revenue growth rate? Thanks.

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

A

That's an interesting question, and I mean the answer is both. Look, we've said all along, in the Frozen space, scale is really, really important there. You have a fixed cost base in that temperature class with freezers in your plants and having to use trucks that are frozen, et cetera, et cetera, et cetera. So, Frozen is an absolutely right barrier for us to be able to get synergies from acquisitions. We saw it a bit ago with Birds Eye. Obviously, you've seen it with gardein and, to a lesser extent, with Boulder. But the center of the store, Grocery business also scales important there. We have a very good portfolio there with Duncan Hines and Wish-Bone and syrups and Vlasic. So, adding scale there is also helpful. And look, as we've articulated before, there are a lot of assets on the market at the moment, and we're going to look at them all. And we would be happy to be able to add business in Frozen or Grocery or in our Boulder health and wellness portfolio.

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Steven Strycula
*Analyst, UBS Securities LLC*

Q

All right. Thanks.

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

A

Thank you.

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**Operator**: Thank you. Our next question or comment comes from the line of Brian Holland from Consumer Edge Research. Your line is open.

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Brian P. Holland
*Analyst, Consumer Edge Research LLC*

Q

Thanks. Good morning. I wanted to ask quickly about the Wish-Bone business. You rolled out the avocado oil dressings recently. Consumption, you can't really tell, I don't think through the scanners. I understand and I appreciate there's typically a lag sometimes when you bring new items in. So, maybe if you could maybe clean up what you're seeing in the trade on your end there and kind of how that – this is evolving a year past sort of the reset?

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

A

Right. Yeah. So, I think we continue to feel very good about the healthy oils platform. It's a place where we think, like we've done in a variety of other categories, it's a chance to bring something that is very relevant to consumers, do it at a better margin and kind of insulate a bit from what is a incredibly competitive segment. And after a lot of years of being around the salad dressing core category, it is a tough one. And I think as you look at results right now, you see a lot of competitive activity, some aggressive pricing. And I think we're continuing to look to balance the right trade-offs between innovation, pricing and merchandising, and making sure that we maintain our margin agenda which we have been very successful on in expanding those margins since the integration.

I will tell you that if you're looking specifically at some of the syndicated data that's in the marketplace right now, one of the things that is not an accurate portrayal is we are executing a downsizing right now on a major part of our business. And sometimes, the IRI and Nielsen databases miss new items in the first read or they also can miss downsizes which operate like new items. And so, the reality is, if you look at our – the Wish-Bone business through the first quarter plus those three weeks in April we have, we are off about 3% or so, which is generally in line with the category, a little bit below the category which, of course, we don't like, but is also reflective of kind of that competitive environment.

So, it's one that I realize is a little difficult to read and certainly we all had to gasp for a second when we saw the data come out. But as we've clarified that and really understand that, we feel like we are positioned where we would expect to be. And then as the innovation continues to help contribute along with good management, we're going to make good decisions and good trade-offs to make sure that at the end of the day we optimize this business.

Brian P. Holland
*Analyst, Consumer Edge Research LLC*

Q

Thanks. That's helpful. And then just – I'll get out of here on this one. Can you frame for us – we talked about Green Giant coming back on, consumption turning positive against significant year-on-year decline. But more broadly speaking, obviously, as Pinnacle has renovated the Birds Eye platform and added several branches off of that tree over the past several years, how much of an impact – and I certainly appreciate that that's an iconic brand that's getting some renewed investment and focus. But can you sort of frame how far you've moved away from that core, such that any real uptick there on the core business or maybe one wave of innovation that – I mean, is that a – can that even be a meaningful impact? Are you guys comfortable with how far you've taken Birds Eye, such that maybe you don't feel that as much?

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

A

Yeah. So, what I would tell you is, it – and as you look at the entire franchise, there is no question that we've got a lot of avenues for growth and contribution on this business beyond core veg. But the reality is that it is very important that you keep your eye on the ball on both the innovation and the added value and the core as well, especially as you go through key seasons, where you see the mix shift on the business to more core veg as you go into key holiday windows.

So, this is not a category where you can afford to walk away from the base and we're not. I mean, we continue to look for opportunities to improve. I think as we've talked about before, the Steamfresh bag and technology is a tremendous tool for us in creating a differentiation. We will continue to support that part of the business, make sure that we're appropriately positioned competitively and that we're in the right spot, both across the core business and the innovation going forward.

**Operator**: Thank you. Unfortunately, we only have time for one additional question. Our final question or comment comes from the line of David Palmer from RBC Capital. Your line is open.

David Palmer
*Analyst, RBC Capital Markets LLC*

Q

Thanks. Good morning.

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

A

Hi, David.

David Palmer
*Analyst, RBC Capital Markets LLC*

Q

Two follow ups and thanks for squeezing me in. Hey. First one on the Boulder Brands segment, just wondering how you see that playing out this year. The all channel consumption is usually different than just what we see in the measured channels, and obviously, you are doing a lot with SKU rationalization now. The timing of that and that impact, I would imagine that will be a diminishing impact perhaps later in the year. You talked about renovation, which I assume is about taste improvements, maybe some of the timing of that. How do you see that portfolio playing out this year?

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

A

Yeah. So, let's kind of tick down, I think the first thing I – just to give you the broad answers to the question. I do think you will see the SKU rationalization initiative begin to diminish as we run through Q3 and into the exit of the year. Again, we've taken a big chunk of that out. We've got a little bit more work to do. You do still see some impact, especially on our gluten-free businesses, and that will likely continue, but begin to mitigate as we get through the third quarter and into the fourth. So – and, again, if you're – how to kind of bridge that, in general terms, the difference between what we would call the underlying base, excluding the discontinuations, you're about 3 points to 4 points of impact on our overall consumption that's related to that. So, that gives you a little bit of a handle on it.

As far as how to think about our innovation and the ramp up, again, I think as you go through our brands, the great news is we have gardein now with Hagerstown open. We've got supply. We've got a lot of excitement building the opportunity to drive distribution and continue to drive growth on that business is a priority that we're not waiting around to do. So, that's a business I would expect to continue to see strength behind as the year moves forward. We also were a little faster through a lot of the SKU rationalization work on EVOL. So, we've got a great core business now there and we're – the sales organization has done a wonderful job driving that distribution into a variety of channels and outlets that it wasn't in before. So, again, I think you should expect to see continued strength there.

And then I think on the gluten-free side, that's where a lot of the renovation activity will occur. I don't think you'll have to wait till 2018 to get it, but I don't think it's something that you're going to see meaningfully impacting 2017. But I think you'll certainly get to see some of that benefit as you roll into the fourth quarter.

David Palmer
*Analyst, RBC Capital Markets LLC*

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And then, while squeezing one more follow-up and that is about the Frozen vegetables. Latest consumption data does suggest that the competitor has returned to growth. And maybe the big picture is that they're going to be managing the business differently than the previous owner, not just now and benefiting from those comparisons, but it's just going to be different. And then they're going to be spending to grow probably trying to follow your blueprint and then trying to extend the Veggie brand into other stuff, the sides, the unique forms that seems to be more of an extendable category than it has been in the past. Do you feel like this is the beginning of a new era in this space and the energy in the category, and the type of growth that it will get?

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

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Yeah. I believe this is a – that we've begun a transformation of this part of the Frozen category and with vegetables being kind of the tip of the spear that's now expanded out into other areas. I'm very confident that there is a relevance and a growth trajectory in Frozen that can be enabled by continuing to move down the path and the strategy that we've put in place. And when you look at the section – again, just to kind of reiterate the point, you see opportunities to eliminate redundancy, to improve relevance and profitability, and I think with one or more players in this space supporting that agenda, I think there is a very positive outlook for this category going forward.

David Palmer
*Analyst, RBC Capital Markets LLC*

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Thank you.

**Operator**: Thank you. I'd now like to turn the conference back over to management for any closing remarks.

Maria Sceppaguercio
*Senior Vice President-Investor Relations, Pinnacle Foods, Inc.*

Thank you, everyone, for joining us today. I know we went a little longer, sorry about that. We tried to take as many of your questions as we possibly could. I am around all day, so if you have any question, just give me a call and I'll be more than happy to help you. Have a good day.

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

Thanks, everyone.

**Operator**: Ladies and gentlemen, thank you for participating in today's conference. This concludes the program. You may now disconnect. Everyone, have a wonderful day.