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Pinnacle Foods, Inc. (PF)

Q4 2017 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, and thank you for standing by. Welcome to the Pinnacle Foods Inc. Earnings Call for the Fourth Quarter and Full-Year ended December 31, 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 A. Sceppaguercio
Senior Vice President-Investor Relations, Pinnacle Foods, Inc.

Thank you, Howard. And good morning, everyone. Thanks for joining us. Earlier this morning, we issued our press release for the fourth quarter and full-year 2017, which is now available on our website. Before turning the call over to Mark and Craig, let me quickly cover some recent refinancing activity.

In January of 2018, we added some additional interest rate swaps on our term loan debt, bringing the percentage of our total debt that's fixed for 2018 to 80%. And for 2019, this percentage increases to 85%. In addition, as you may know, in mid-February, we entered the market to refinance our term loan debt. While this transaction is still in progress, upon expected completion later this month, we expect it to favorably impact our interest expense beginning in the second quarter of 2018. Taken together, we expect these refinancing actions to mostly offset the impact of the anticipated rising interest rate environment in 2018.

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Here with me to discuss the results of the quarter and the year as well as our outlook for 2018 are Pinnacle CEO, Mark Clouse; and our CFO, Craig Steeneck. As usual, our release and conversation this morning will include our result 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 it is a meaningful comparison and an appropriate basis for discussion of our performance. Details of the excluded items are included in the reconciliation tables included in our press release and are discussed in detail in our 10-K, which will be filed later today.

Before turning the call over to Mark, 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 dialing in. This morning, I'll cover our results for the full-year and provide some perspective on 2018. And then Craig will review our Q4 results and provide specific guidance items included in our outlook for 2018.

As you know, 2017 was a year of mixed performance for us. We continue to deliver excellent in-market results that position us among the leaders in our industry at a time most players in our sector are struggling to find growth. In fact, in 2017, we grew retail consumption every quarter, ending the year up 3.5%, excluding the AJ business and a category composite that was up 1.6%.

As a result, we grew our composite market share by 0.5 points fueled by Birds Eye and Duncan Hines and to a lesser extent, gardein. This was our sixth consecutive year of outpacing our categories. Our net sales did trail our consumption, particularly in Q4, as several key customers maintained lower retail inventory levels through year-end. This reflects the evolution of stricter service goals by retailers, enabling them to maintain lower inventory. Although this impacted our top line, as we adjusted to meet these retailer demands, it really represents a one-time impact versus any fundamental issue.

As you know, we also faced a number of challenges on margin, namely a product recall and subsequent business exit, which collectively served as a catalyst to accelerate into 2017 some strategic manufacturing investments that were planned as part of our multiyear network optimization initiative, which is now underway and making steady progress. However, these discrete headwinds resulted in our adjusted gross margin for the year, declining 40 basis points, including the $42 million of discrete costs associated with the AJ exit at subsequent manufacturing investments.

Excluding this impact, our gross margin grew 40 basis points for the year, although below our expectations due to escalating logistics and packaging costs and some headwinds from product mix, which turned unfavorable for us in 2017. The accelerated growth that we've experienced on several key franchises most notably on Birds Eye, including innovation has required us to rely on co-packers at a higher short-term cost, which accelerated in Q4. And while we add internal capacity this has hurt our mix.

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Our acquisition of Beaver Dam in December 2017 is a great example of how we are proactively addressing the accelerated growth in Birds Eye and ultimately repatriating volume, which will enable us to improve gross margins. This gross margin pressure required us to take aggressive action to reduce cost and control the controllables to deliver our commitment of adjusted diluted EPS of $2.55. The aggressive cost reduction in 2017 was focused on reducing SG&A through tighter management of discretionary spending. All-in, our SG&A and other expenses as a percent of net sales declined 1.3 percentage points to 10.9%, with SG&A overhead down to 8.5%.

For context, our all-in spending in 2016 was 12.2%. Although, we expect this spending to be reinstated in 2018, the reduction was critical to delivering our commitments in 2017. Our interest expense for the year also declined 13% to $120 million, reflecting the benefit of our refinancing in early 2017, while our effective tax rate declined to 32.2%.

As a result, the composition of our 2017 P&L was quite different than what we, and we know you, expected at the start of the year. But nevertheless, we delivered a strong 19% increase in adjusted diluted EPS to $2.55 in 2017. And importantly, the actions we took during the year have improved the foundation of the business for the future.

As we turn to page on 2017, there are many reasons to be confident in our outlook for a strong 2018. First is our in-market momentum. With strong consumption in share performance in what is now a growing category composite, we expect to continue this momentum in 2018, behind innovation and marketing plans that will fuel growing businesses and improve challenged ones.

Second, as previously state, we expect much of the discrete costs to serve as tailwinds in 2018, including the benefits of not only lapping the costs, but also the improved productivity resulting from the investment.

And third, also providing a tailwind to 2018 results is the benefit of U.S. tax reform. We are planning to reinvest a portion back in our brands and our people. This confidence also reflects the fact that we will be reinstating some expenses that we cut in 2017, largely in SG&A. It also recognizes the reality that some of the industry headwinds that impacted 2017, primarily logistics and packaging inflation, along with the challenging retail environment, are expected to continue in 2018.

To be clear, we continue to have strong confidence in the gross margin opportunity at Pinnacle. However, given some of the short-term headwinds we are navigating, we now expect to achieve our long-term gross margin objective in 2020, one year later than previously planned. However, taking all of these drivers for 2018 into account, we expect a very strong year with a healthy P&L composition driving double-digit adjusted EPS growth in the range of $2.85 to $2.95.

Before I turn it over to Craig, let me spend a few moments on some of the highlights of our segments, each of which has a strong innovation pipeline and initiatives to support the delivery of the strong 2018 we expect.

Starting with Frozen. Our Frozen segment delivered another year of exceptionally strong in-market performance with consumption up 4.1% in 2017, excluding the AJ exit. The continued strong Birds Eye momentum was driven by our highly successful innovations, including our breakthrough Veggie Made platform, which you'll recall uses vegetables in place of starches to create wholesome veggie-rich alternatives for products such as our unique-to-the-category pasta as well as rice and potatoes that deliver great taste with significantly less carbs and a full serving of vegetables.

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Also contributing to the growth were the introductions last year of Birds Eye Superfoods and a limited distribution Birds Eye Organic line. To ensure the momentum continues, Birds Eye has a robust slate of innovation beginning to roll-out in April that will extend the franchise into even broader occasions.

In addition to our Birds Eye meal business, we are launching Mrs. Paul's and Van de Kamp multi-serve meals [audio gap] (10:18) as the protein. We're also expanding distribution for our Hungry-Man Handful line launched into limited distribution last year.

Overall, we expect continued robust Frozen top line performance with net sales tracking more in-line with consumption. We expect Q1 to benefit somewhat from Easter timing, while margins are expected to be soft in the quarter due to some continuing pressure from input cost inflation, mix, and the timing of Easter promotional spending. For the year, we expect both the top and bottom lines for Frozen to post solid growth.

Turning now to our Grocery segment. Grocery also posted strong in-market performance in 2017 with retail consumption up 1.4% in a category composite that was down almost 1%. As a result, the segment grew market share by 0.2 points. This performance was significantly driven by the strength of Duncan Hines, which grew market share by 3.4 points in 2017, and continued growth of Armour, which grew share by a full percentage point due, in part, to hurricane-related consumption. Partially offsetting these drivers were declines for Smart Balance, Wish-Bone, and pie fillings.

Duncan Hines strength was fueled by the highly successful launch of Perfect Size for 1, which was recently named Product of the Year for 2018 in a survey of 40,000 consumers conducted by Kantar, an independent global leader in consumer insights.

To ensure the continued momentum of the brand, in 2018, we are expanding the line with additional varieties focused on breakfast and indulge in chocolate. We're also introducing a line of Perfect Size for 1 frostings and drizzles in 11 varieties. Notwithstanding the significant success of Perfect Size for 1 in 2017, we expect another good year for Duncan Hines in 2018.

We will also be refreshing the Wish-Bone business during the year with a combination of new graphics, a move to clean label on our flagship Italian varieties, and an overall optimization of the product line. We believe that these actions will enhance our on-shelf presence and simplify shopability for consumers. We will also be supporting Vlasic, with the launch of Vlasic Snack'mms, a four-item line of popular flavors in a bitesize format.

Now turning to Boulder. In 2017 net sales for the Boulder segment advanced almost 11%, reflecting strong underlying net sales growth in excess of 10%. The strength reflected exceptional growth of gardein and double-digit growth of Earth Balance and Evol, partially offset by Udi's. The gardein performance reflects the benefit of the new Hagerstown, Maryland facility that significantly expanded capacity for the brand. We continue to believe that growth of plant-based proteins represent a very significant opportunity and gardein is poised as a leader in this space to benefit meaningfully.

To ensure continued momentum of Boulder, we are introducing a full slate of innovation behind the portfolio, including our recently introduced Udi's white and multigrain sandwich bread made with a new formula that dramatically improves the taste and texture of gluten-free offerings in the market. This improved formula will replace existing items. Udi's will also be introducing other new varieties across its portfolio as the year progresses.

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We will also be launching exciting innovation behind gardein and Evol. With gardein, we are launching Skillet Meals, a tasty meat-free combination of plant-based proteins with a variety of crisp vegetables, grains, and pastas in flavorful sauces that can be prepared in just minutes.

Evol will be launching a modern approach to bowls packed with everything you need for a more customized diet. Each bowl delivers a specific ingredient bundle to meet consumer needs, such as performance, energy, plant-based lifestyle, or simply balanced nutrition.

We expect Boulder top line momentum to continue, led by very strong growth of gardein and supported by Evol and Udi's. We expect margins to be under some pressure in the first half due to higher new product introductory costs and marketing spending in 2018 versus 2017.

Finally, turning to our Specialty segment. Net sales for Specialty declined approximately 12% in 2017 due to the 8.5% impact of the AJ exit, along with an underlying net sales decline of approximately 5%. The underlying sales decline was driven by the decision to exit several low-margin businesses in 2017.

We remain focused on optimizing this segment to improve margins and ensuring our capacity is deployed to our highest margin and best return opportunities. For perspective, in 2017, adjusted EBIT margin, including $12 million of discrete costs still advanced 70 basis points. And, if you exclude the $12 million of the discrete costs, adjusted EBIT advanced almost 30% and adjusted EBIT margin grew in excess of 400 basis points.

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

Craig D. Steeneck

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

Thanks, Mark, and good morning, everyone. I'll start with the results for the fourth quarter and then transition to our outlook for 2018. Starting with sales, fourth quarter consolidated net sales increased 2.9%, reflecting the benefit of the 53rd week and the recovery from the hurricanes that negatively impacted the third quarter. Partially offsetting these factors were the unfavorable impacts of the AJ exit and an underlying net sales decline of 2.4%, which largely reflected a reduction in retail inventory levels in the quarter at several large customers, despite the continued strong in-market performance.

The Frozen segment advanced 2.7%, largely reflecting the same factors that influenced our consolidated results. The underlying sales decline for Frozen reflected lower vol/mix stemming from the reduced retailer inventory, partially offset by higher net pricing.

Net sales for the Grocery segment advanced 3.8% in the quarter, reflecting the benefit of the 53rd week, partially offset by an underlying net sales decline that also reflected lower vol/mix stemming from the reduced retail inventory as well as lower net pricing.

The Boulder segment registered another very strong quarter, advancing 13.4% as underlying net sales growth of 7% and a benefit of the 53rd week of almost 8% were only slightly offset by the residual impacts of the Boulder SKU rationalization program and UK wind down, which are both now entirely behind us.

Finally, net sales of our Specialty segment decreased approximately 10%, reflecting the unfavorable impact of 11.6% from the AJ exit and an underlying net sales decline of 4.4%, only partially offset by the 6% benefit of the 53rd week.

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Turning to adjusted gross profit. Adjusted gross profit in the fourth quarter increased 2.5%, while adjusted gross margin decreased 10 basis points. Let me pause for a moment to elaborate on the three primary drivers behind the decline in gross margin.

First, as expected, discrete costs associated with the AJ exit and accelerated manufacturing investments impacted gross margin in the quarter by $7.3 million. Second, despite productivity of 4.2%, our strongest quarterly delivery in 2017, we continued to experience escalating inflation, specifically in logistics and packaging, and we expect it to remain elevated through 2018. And third, unfavorable mix added additional pressure to the gross margin, as continued accelerating growth of Birds Eye has required us to outsource more production of our innovation at a higher cost to meet demand.

Our acquisition of Beaver Dam, as Mark referenced, is a great example of how we are proactively addressing the accelerated growth of Birds Eye with plans to repatriate some volume and recapture some lost gross margin over time. One final thought on gross margin, as we head into 2018, we expect to benefit from net price realization, given carryover pricing from 2017 and new pricing actions already announced for early Q2 2018.

Continuing down the P&L. Adjusted EBIT increased nearly 12% in the quarter, reflecting the growth in gross profit and aggressive cost management, particularly in discretionary spending.

For the Frozen segment, adjusted EBIT increased 1%, despite a $4.6 million in discrete costs, reflecting the benefits of the net sales growth, productivity, and lower discretionary spending, partially offset by input cost inflation and unfavorable product mix, as Mark discussed earlier.

Adjusted EBIT for the Grocery segment increased 7.1%, primarily reflecting the benefit of the net sales growth, productivity, and lower discretionary spending. This growth was partially offset by input cost inflation, and unfavorable product mix, due to softness of Wish-Bone, Smart Balance and pie fillings.

Adjusted EBIT for the Boulder segment nearly doubled, reflecting the benefits of the net sales growth, acquisition synergies, productivity, and lower discretionary spending, partially offset by input cost inflation.

And finally, adjusted EBIT for the Specialty segment increased 13.5%, reflecting strong productivity and lower discretionary spending, partially offset by the impacts of the lower net sales, $1.8 million of discrete costs and input cost inflation.

Interest expense for the quarter decreased approximately 13%, reflecting the term loan refinancing we completed in the first quarter of 2017, as well as the reduction in outstanding indebtedness versus the prior-year period. This was partially offset by slightly more than $2 million of additional interest expense, associated with the 53rd week.

Now turning to taxes. As a result of the U.S. tax reform enacted in late 2017, we recorded a one-time non-cash benefit approximating $335 million, from the remeasurement of the company's deferred tax liabilities, which was treated as an item affecting comparability.

On an adjusted basis, the effective tax rate for the fourth quarter was 35.4%, compared to 36.3% in the year-ago period. And on a full-year basis, the adjusted ETR was 32.2% compared to 36.6% in the year-ago period, largely reflecting the benefit of the new accounting treatment for stock-based compensation. And finally, adjusted net earnings increased nearly 20% in the quarter, and adjusted EPS advanced 19% to $0.94, with the benefit of the 53rd week approximating $0.05.

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Turning to cash flow. For the full-year, net cash provided by operating activities totaled $416 million versus $488 million in 2016, primarily reflecting the higher working capital associated with our innovation agenda, as well as cash costs of both the discrete items and the debt refinancing we did in early 2017.

Capital expenditures for 2017 totaled $94 million, compared to $101 million in 2016, and free cash flow for the year decreased to $322 million compared to $387 million in 2016, reflecting the lower cash from operating activities.

Turning to liquidity. At year-end, our total debt was $3 billion, including $2.3 billion secured loan, and $700 million in senior notes. Cash totaled $250 million, bringing our net debt to $2.7 billion and our net leverage ratio to 3.9 times.

And finally, in terms of our outlook for 2018, we expect adjusted diluted EPS for the year in a range of $2.85 to $2.95. At the midpoint this represents growth of 16% versus the comparable 52-week adjusted diluted EPS of $2.50 in 2017.

The impact of an earlier Easter in 2018 is expected to modestly benefit the first quarter net sales of the Frozen segment and to a lesser extent the Grocery segment, due to the seasonal nature of these portfolios. However, the profit impact, if any, is expected to be modest, given the promotional nature of the holiday period.

Of the $42 million in discrete items that we incurred in 2017, we expect approximately two-thirds to become tailwinds in 2018, benefiting gross margin. The favorable spread between productivity and inflation is expected to narrow significantly in 2018. Input cost inflation for the year is estimated in the range of 3.8% to 4.2% with first half inflation higher than the second half.

Productivity for the year, including the residual Boulder acquisition synergies and some early savings from the network optimization program, is estimated in the range of 4% to 4.5% of cost of goods sold, with second half productivity higher than the first half.

Net interest expense is forecasted to be in the range of $123 million to $126 million, including a modest forecasted benefit from the refinancing underway. Our adjusted effective tax rate for the year is estimated to improve to a range of 24% to 25%, largely reflecting the impact of the U.S. tax reform. With this lower rate, we plan to invest a portion of the savings back into our brands and our people.

On the people side, for example, we are planning to increase the company match on our 401K program for all non-union employees. The weighted average diluted share count for the year is expected to approach 121 million shares.

Capital expenditures for the full-year are expected to be in the range of $155 million to $165 million, including capital to build out our Frozen vegetable capacity in our new Beaver Dam facility and add additional capacity in Hagerstown for gardein, as well as other network optimization projects.

Finally, from an EPS cadence standpoint we expect to deliver double-digit growth in both the first half and second half of the year, despite the pressure on margin early in the first half, from a narrowed spread between inflation and productivity.

With that, I'll turn the call back to Mark for some concluding comments.

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

Thanks, Craig. So, as I reflect on 2017, I'd like to leave you with these thoughts. First, the fourth quarter marked the 15th consecutive quarter of share growth for Pinnacle and a composite category that is now growing. Best-in-class innovation, and effective and relevant marketing are driving these strong results.

Second, while our gross margin was under pressure in 2017, we've made investments in our portfolio and network optimization along with continued strength in productivity that laid the foundation for Pinnacle to return to accelerated growth.

And finally, we delivered our EPS commitment for the year by making some tough calls and controlling the controllables to help offset pressure from discrete items and industry challenges. As we move into 2018, we have confidence in our outlook. We have momentum in the marketplace and in the execution of our network plans. And we expect to continue to successfully navigate the challenges facing our industry. All-in, we are projecting a 2018 that will deliver another year of double-digit adjusted EPS growth.

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.

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

Andrew? We can't hear you.

Operator: Hold on.

Andrew Lazar
Analyst, Barclays Capital, Inc.
Q

How about now?

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

All right, got you.

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

Better.

Andrew Lazar
Analyst, Barclays Capital, Inc.
Q

Okay. I promise you that was not me on mute.

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

That was a great question, Andrew.

Andrew Lazar
Analyst, Barclays Capital, Inc.
Q

The operator can vouch for me on that.

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

Okay.

Andrew Lazar
Analyst, Barclays Capital, Inc.
Q

So, a lot of moving pieces on 2018, particularly on gross margin. So, I was hopeful, we can go through a little of those in more detail, as I'm really trying to get a little bit of a better handle on what we think gross margin expansion can look like specifically in 2018. You talked about the lapping of some of the discrete items which helped you with synergies, the ongoing productivity, some price mix, and then some of the mix benefit you get from discontinued AJ from last year. So, I'm trying to get a sense I guess of the pieces and the magnitude maybe that start working against you a little bit more around gross margin relative to your initial expectations, that sounds like part of that's inflation.

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

Right.

Andrew Lazar
Analyst, Barclays Capital, Inc.
Q

Part of that's some of the costs associated with co-packers around the Birds Eye innovation. But I guess if there's anything else I'm missing there.

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

Yeah.

Andrew Lazar
Analyst, Barclays Capital, Inc.
Q

I guess as we wrap all this together, how do we think about gross margin for the year?

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

Yeah. Sure. So, let me take a crack at walking you through it and Craig jump in, as well. So, let me kind of start and work through the drivers for gross margin in 2018. First, as we provided, the good news is the productivity objectives that we set, especially behind the investments in network that we made in 2017, are coming to fruition.

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So, we're seeing productivity in the range of 4% to 4.5%. Countering that, though, is a much stronger inflation rate, where we have it at 3.8% to 4.2%.

So, if you take the algorithm of those two pieces together, it does provide some modest contribution to gross margin, but not as much as we would have seen historically or how we would have initially seen or estimated that contribution.

The offside to that or the flip to that is, although a tough environment to get pricing done, I do expect that we will be able to get pricing in place, based on what we put in place in 2017 as well as what we announced in 2018. Although that's likely not going to help us materially in the first quarter, I think as the year rolls on you're going to see a benefit from pricing and some of that improvement in mix as a way to help complement what is a lower kind of net productivity impact.

And then further accelerating or supporting margin expansion, will be the two-thirds of the discrete items that we see recovering. Inclusive, as well, some positive benefit from planning some of the insurance recovery that we would have associated with the recall. Again, difficult to predict that, but we've built in a modest expectation for that.

So, those elements together, I think, give you an outlook that's perhaps not all the way to where we initially would have liked to be, I think it will result in a very strong year of gross margin expansion relative to what our historical run rates have been. Does that help, Andrew?

Andrew Lazar Q
Analyst, Barclays Capital, Inc.

That does help. And then, we're two-thirds through the first quarter at this point. I guess are you able to say that your shipment levels are now tracking more in line with what consumption looks like at this stage? Or do we still have a bit of a mismatch? And then some of the things you talked about around retailer requirements and such, that seems, obviously, more structural in nature.

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

Right.

Andrew Lazar Q
Analyst, Barclays Capital, Inc.

How do you handle that going forward or offset some of that?

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

Yeah. Well, so the short answer is, how are we starting the year relative to shipments and consumption? We are much more in line. If I just take a minute on 2017, because it was one of the areas that I'm sure for many of the folks on the call would have had a different expectation and top line relative to how we came in for the year, as it was for us as well.

And as we went through 2017, the good news is our consumption and in-market results have been fairly consistent for the whole year. We finished about 3.5%, less AJ, and that was consistent to where we were in the

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fourth quarter as well. So, all year we had this dynamic of slightly lagging our consumption rolling into the fourth quarter.

And even after the hurricane, which you'll remember, we talked about that being a bit of a headwind in the third quarter, we saw a bounce back in October, but still were lagging where consumption should indicate shipments to be.

We went into the holiday season, we really had a good holiday period relative to consumption and what we did not see is the normal replenishment that happened in several key customers. And the catalyst for that is the fact that as customers are focusing more on, on-time and in full delivery, it's allowing them to operate with a lower inventory level than they have historically.

As far as our readiness to meet those needs, I feel very good. We're doing very well. Now, you will notice that in the 2017 results, we did carry a higher inventory level, which was part of the initial plan to help us navigate some of this in the shorter term, and as we get into 2018 in a more normal alignment between consumption and shipments and the work we've done to build the capabilities or the muscles to meet the timing and sequence of the demands of retailers. We're actually feeling very good.

So, I think the net of it would be good underlying consumption in that 3.5% range on a category composite that's now growing and then shipments as we roll into 2018 being more aligned to that number. I don't think it's a recovery of that, I do believe it's a one-time reduction in inventory. But at least, I think you'll see a more consistent linkage between those two drivers.

Andrew Lazar
Analyst, Barclays Capital, Inc. Q

Great. Thanks very much.

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

Great. Thank you very much. So, I just – a question around your comments on pricing expectation for 2018. Just wondering, if you could provide a little color as to maybe where that pricing would be coming from and when? And really just kind of with the overlay of – it seems as if the overall pricing environment per se still somewhat challenged at retail...

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

Yeah.

Rob Dickerson
Analyst, Deutsche Bank Securities, Inc. Q

...absent really solid innovation.

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

Right. Yeah. Well, there's no question that the environment is a tough environment for pricing. And in particular, when the inflation relates to freight and packaging which is where we're seeing the lion's share – although, we do have some inflation on proteins which is a little bit easier to pass through.

I think despite that fact, we do see opportunities and we have been very successful in supporting our brands and driving innovation, which is giving us the room to take some of the pricing actions that you would have seen in the latter part of 2017 and then a handful of additional pricing actions that we're taking in 2018.

And again, pricing for us comes in the form of a couple different tools. One of which is list pricing, which we have in and will add into the market. But also, it's rationalizing what our ROIs are and our trade spending as well as looking for continued opportunity to improve the margin through things such as downsizing.

And so, all of those play a role in our pricing objectives for the year. And, again, I think to your point, we're not expecting it to cover entirely that narrowing of range between productivity and inflation. But we do see it as a positive contributor overall to margins in 2018.

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

So, Rob, we actually have some pricing that we've already announced to the market for early Q2. To Mark's point, we were certainly seeing some pressure on proteins. We've got some pricing there. Vegetables, the Birds Eye portfolio even gardein to a lesser extent.

And to Mark's point, we do it in multiple ways. The ROI on trade. We're making modifications to the tiering we have in Birds Eye and a couple of the other brands. So, it's not as kind of in your face and specific relative to list pricing, but a lot of kind of stealth ways to be able to get it there.

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

And what we've said before, Rob, and I think is holding true now as well is that it's a lot easier to have some of these tougher conversations when you've been a company that's brought a lot of innovation and news to the categories. And although, we're – not every conversation is an easy one, but I do think relative to the starting point for the conversation we're bringing a lot of credibility to the table. And I think that's going to help us as we navigate needing to get some of this pricing in and through for 2018.

Rob Dickerson
Analyst, Deutsche Bank Securities, Inc.
Q

Okay. Great. That's helpful. And then just quickly, on M&A. It looks like you came in year-end on 2017, net debt EBITDA around 3.9 times, which I think was, like, a little bit above where you saw it, but let's just say you've already been basically in line.

And as we think about 2018, with the leaning into SG&A more normalized rate, some of the gross margin pressure kind of where we think cash flow could come in, it doesn't seem like there would be, like, a large deleverage effect coming in 2018. So, I'm just curious, just in terms of your updated thoughts on strategic acquisitions and investments kind of for this year. Is this maybe a year, maybe there could be less of that or is there – you're always open to opportunity?

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

A

So how about I – I'll give you a little bit of broad perspective on kind of how we're feeling about M&A and what we're thinking. And I'll let Craig talk a little bit about our financial readiness for M&A. Because I kind of felt like in your question, you're asking a little bit of both of that.

I think on the overall strategic thought around M&A, again, completely consistent with what we have said historically, we believe very strongly in the contribution that M&A can make to our overall business. We don't want to ever be dependent on it to deliver our algorithm, but we definitely see it as an accelerator and as you think about where we are in our journey and what we've accomplished over these last couple years, I said last year we were ready, and we remain ready. And so, it's not for lack of participation or interest but we are going to maintain our discipline.

The idea that no deal is better than a bad deal remains, and I think we've got to be very focused on making sure we see the road to value creation. And again, we continue to see that kind of on both sides of our optionality with larger scale transactions. I continue to believe that over time, the industry, especially within Frozen, could see significant benefit from a consolidation, while also seeing smaller tuck-in Health & Wellness businesses or other center store assets that as companies go through some of these major transactions.

I mean, in some cases you need the catalyst to free up the strategic flexibility for companies to optimize the portfolio. And even in more recent weeks, we see more deals happening. And I think that's going to benefit us in having an opportunity to look at some other things or to potentially take action on things that previously have been harder to start that conversation on. So, Craig, maybe talk a little bit just about financial readiness?

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

A

Yeah. So Rob, just very quickly, I think you hit the main metrics. When we did the Boulder acquisition two years ago, we said we would de-lever half a turn a year. And we levered up to 4.8 times, and as you say we're down to 3.9 times at the end of 2017. So, we hit that objective.

We also hit the objective on Boulder of the synergy target. We did $16 million each of the first two years for a total of $32 million. $4 million more to come in 2018 for a total of $36 million. And we took that portfolio where we originally said we would increase the EBITDA by 50% and we've actually increased it greater than 80%.

So, Boulder acquisition, enormously successful. The balance sheet is de-levered. We have line of sight to a very strong cash flow year in 2018. We're going to put a little bit more investment in CapEx to fund not only Hagerstown for gardein, but our new plant in Beaver Dam for Birds Eye. So, I mean, we have plenty of cash. Boulder is fully integrated and we're ready to go from a financial standpoint.

Rob Dickerson
Analyst, Deutsche Bank Securities, Inc.

Q

Very helpful. Thank you.

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

A

Thank you, Rob.

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Operator: Thank you. Our next question or comment comes from the line of Farha Aslam from Stephens, Inc. Your line is open.

Farha Aslam
Analyst, Stephens, Inc.

Q

Hi. Good morning.

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

A

Hi, Farha.

Farha Aslam
Analyst, Stephens, Inc.

Q

A question on Boulder. There's lots of moving parts there. Could you share with us some expectations on what do you expect that top line to be for the year? And kind of what kind of margin can we expect for them for that business?

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

A

Yeah. So, the good news on Boulder is, as the year has unfolded in 2017, we've seen momentum really building across a variety of businesses. And as that organization and team kind of moves through the integration phases to really now back on its front foot thinking about growth, we have a significant expectation for continued improvement in growth on that business. The star of the show no question, has been gardein, its in-market results in the fourth quarter were up over 50%. That's on a business that's been around a while, but we now have the full capacity of Hagerstown in place.

So using that capacity, along with some really good innovation, you would have heard us talk about the bag meal platform that we're launching this year, which as you might imagine also, utilizes a lot of the technology that we use on the Voila! business to help us reach across brands and into the Boulder business, to help with scale and improve cost structures in being able to add profitable innovation. So, I feel great about where we are on gardein. And I think the relevance of plant-based protein is only going to get bigger.

Our Evol business has also been very strong and this idea of more premium priced clean ingredient food now with the addition of some of the health benefits we're bringing with our modern nutrition bowls, which unlike a lot of bowls that are out there that are just general health, we see a significant opportunity to better meet specific consumer needs with bowls that have unique combinations of ingredients that meet your goal. Whether it be performance or sustained energy or just general balanced health.

I think the business that has remained the toughest is Udi's and we know what a big part of our challenge was there. And that was the quality of our bread and the proliferation of other items that are eating or continuing to cut into share of Udi's. So that was the priority as many folks saw in December and if not, you've seen it in-market. The new bread innovation on Udi's is absolutely a game changer. It's off to a great start. We're really excited about what that can do. So, I think as you think about 2018, I would say continued momentum on those businesses that have been strong with an improving trend on our Udi's business as we go forward.

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I think from a margin standpoint, we have made unbelievable progress since the acquisition. We're up over 600 basis points on gross margin on that business. We will have some investment in slotting, as we put some of the new items in, although these particular channels are a little easier to navigate when it comes to that. So, I would expect solid margin performance and continued strong top line.

Operator: Thank you. [Operator Instructions] Our next question or comment comes from the line of – we have Robert Moskow from Credit Suisse. Your line is open.

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

Tough to pronounce, I guess, but yeah, this is Robert Moskow.

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

Must have been the Credit Suisse, Rob.

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

I don't know. Just one question, Mark, you mentioned underlying consumption rates, I guess, in [ph] ROI (46:58) of 3.5% in 2017. I use Nielsen, it comes out a little bit differently. Is that a consumption rate that you would expect in 2018 for your – in the retail-measured data? And to what extent does the hurricane provide – I would think it would be a little bit of a headwind in 2018, just because you probably saw some pantry loading by consumers.

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

Yeah. So, a couple of things on consumption and market performance that is very positive, and I think helpful as we think about momentum going into 2018. One of the things that I think is most significant in 2017 is, as we've talked many times, the composite categories that we [indiscernible] (47:51) historically have been declining about 1% in that range. And in 2017, we saw that swing to positive.

And again, we would certainly hope to see that in places like Frozen veg, in improving trends in baking where we have really been leading innovation, I think those are – I would consider those to be very likely to continue and continue to show the strength that we saw in 2017. I think we had the best year we've ever had in innovation across the board, and one of the things that's really exciting about 2017 is it's just not the Birds Eye story.

Although Birds Eye had an amazing year and momentum actually building on that business as we enter into 2018 and, as you know, we're now working on three-year stacked growth rates on Birds Eye. We're working heavily on the Veggie Made platform that we talked, and we've got some innovation that we'll talk more about in the future for this year that I think is every bit as strong as what we launched this year.

So, I feel really good about that outlook going forward and that beyond Birds Eye with the strength in Duncan Hines we've got some great innovation on some of the supporting brands like Vlasic, a restage on Wish-Bone, which I think is going to be really important in a very price-sensitive area as we lap that in 2018.

And then we just talked about Boulder. So, I – we don't – we try not to give specific guidance on top line, but I would tell you that I feel very confident that we'll continue to pace ahead of our categories and improving in 2018

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a better sequence of shipments to consumption, so that we're able to get that in a little bit more steady state than what we saw this year.

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

Okay. Thank you.

Operator: Thank you. Our next question or comment comes from the line of Akshay Jagdale from Jefferies. Your line is open.

Akshay Jagdale
Analyst, Jefferies LLC

Good morning. Thanks for the question. I just – I wanted to ask about there's a lot of noise in the industry, right, as it relates to the gross margin pressure, which presumably tells some investors that there's weakness in brands, in general. But at the same time, almost all companies, including yourself, with some of these tax savings you're investing back in the brands, and seems like that's the right move. But can you just talk broadly to why making or accelerating these investments in your brands is the right thing? Like what are you seeing despite this near-term gross margin pressure that gives you confidence that you're going to get the appropriate returns on these brands long-term? Thanks.

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

Yeah. Very good question. Let me take it kind of from two sides. First, I'm probably not in the best position to comment on others' gross margin pressure or what is driving some of the pullback that you've seen. What I can tell you for us is, if you look at what we laid out as part of our long-term margin plans and we talked about at the time, productivity network optimization and synergy as well as price and mix as being the variables that fuel that over time.

If you think about those items, right? Our network optimization work, we feel very good. We've delivered the synergies. And although price and mix may be lagging a bit, the inflation and a little bit of short-term pressure as we have seen a significant step up in some of the businesses that we've had to outsource, the reality is, the difference between what we had laid out for the three years and what we're experiencing now resides almost entirely within this relationship of inflation relative to productivity.

And although, we always have the mantra that we should be able to price inflation through, I will say the dynamic and the environment we're in and where the source of the inflation is coming from is making it a little bit more difficult to cover all of that.

Now, I do think some of the inflationary is like freight. They do tend to be cyclic in nature. I think there will be a recovery. I just think it's going to take time. It's not something that's particularly easy to predict when. So, I think you've got to be prudent in how we're planning 2018. And that's why we've made the assumptions that we've made.

The investment part of it, so relative to that, I think the potential for us to continue to drive growth, one of the things that I'm very happy about with where Pinnacle is in its journey, where a lot of people are kind of starting from a standstill now to say okay, now let's grow, we have been working on this for several years.

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And so, our understanding of ROI on investment, our understanding of where the potential is to accelerate growth faster with the right kind of investment and the right spending gives us, I think, an advantage in having a better idea and insights on how we will drive the best possible return. We've always been a pay-as-you-go company and we'll continue that even in the environment where we're using a little bit of the tax benefit to fuel that. But we're going to be very smart about it and we're going to use what I think has become a deeper set of learnings and insights to really help us make better choices.

Akshay Jagdale
Analyst, Jefferies LLC
Q

Thank you.

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

And very clear for us in the brands and the portfolio. Birds Eye, the fantastic innovation from 2017 from Duncan Hines, the Boulder portfolio that Mark articulated with gardein and Udi's. We've got very clear metrics where our investment and innovation in those brands, in particular, has paid off historically. We've got momentum there. So, the decision is pretty easy relative to reinvestment in those brands and that innovation to be able to drive future growth.

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

And I do think it's going to be a bit more of a competitive environment as well. As companies have discussed using investment as well. We want to also make sure that we've got enough flexibility in this plan to be able to address where we may have unforeseen competitive challenges as well. So, I think all of those elements weigh into the strategy that we've tried to put in place and the right balance in setting expectations appropriately while still having enough flexibility to fuel growth or to defend if we need to in certain areas.

Akshay Jagdale
Analyst, Jefferies LLC
Q

Thanks.

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. LLC
Q

Hey, guys, good morning.

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

Hi, Jason.

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

Morning, Jason.

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Jason English
Analyst, Goldman Sachs & Co. LLC

Q

You can call me Jared, if you prefer.

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

A

As long as we got the firm right.

Jason English
Analyst, Goldman Sachs & Co. LLC

Q

Yeah, that works. As long as you let me ask the question, I don't care what you call me. So, congratulations on another strong year of consumption growth. As you mentioned, clearly it didn't result in as much gross profit as you were expecting and [indiscernible] (55:16) to next year.

As we try to parse it out, it looks like the net inflation, net productivity is maybe a 50 basis point haircut to expectations for next year than maybe where you would have been a few months ago. It doesn't really explain all of the bridge down to where sort of your implicit guidance is for the year. So, I guess that begs a question of credibility in the long-term. I think, one of the things that's made your margin expansion, longer term margin expansion so credible is your starting point. And the ability to underwrite a view that here is a credible story where innovation can indeed mix up, because you're starting at a low base. But now you're talking about innovation maybe mixing down, because of the need to lean on third parties. So, I guess, my real question is does the premise that you'll be able to mix up through innovation still hold? Or do we – should we expect you to kind of have to continue to lean on outsource to find your way there?

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

A

Yeah. No, it's a good question. And one of the things that – always as we laid out this vision for margin, we had anticipated that some of the innovation that we'd be launching was going to be technology that we would not want to necessarily invest in upfront, utilizing some co-manufacturers as a tool to validate as we went forward.

I do think part of what we saw this year was a substantial step up in the growth of that innovation as a percentage of our business, aggravated even further as we saw some of the retail inventory reduction that happened at the end of the year on our more core higher margin businesses, which created this dynamic that was an unfavorable headwind on margin. I do think, though, the good news is, from the beginning we've not been standing still on that.

So, the acquisition of Beaver Dam, the addition of Hagerstown, we've done a very good job I think of creating manufacturing capabilities within the areas where we're targeting growth that are going to be able to better support what we're doing going forward.

So, although I do acknowledge that that is a little bit of a counter position to what we've said all along on margin accretive innovation, we know that over time, that premise and principle is intact. We've just got to go through some of the repatriation. And where we had not necessarily intended on it to be a distinct driver, if you will, as we saw the overall mix of the business as we exited 2017.

I think as you go into 2018, I would tell you that I do expect early in the year as we're coming up and online on some of the investments we're doing primarily in Beaver Dam, that we'll see a little bit of that pressure continue.

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But as we work through the year, I think you're going to see that go away and return to a positive contributor to margin. Because remember, Jason, one of the things that's really important about this premise is that the underlying leadership of businesses where we are focused on growth, and where we're investing, and seeing so much of the strong in-market results on, are significantly margin advantaged to the foundation businesses. Although that got lost a bit in the 2017 results, we do think that as we clean up the sourcing and we get that in place, you will see us fully able to realize what should be an inherent mix benefit in the structure of the portfolio.

Jason English
Analyst, Goldman Sachs & Co. LLC
Q

Helpful. Thank you very much.

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

Thanks Jason.

Operator: Thank you. Our next question or comment comes from the line of Chris Growe from Stifel. Your line is open.

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

Hi, good morning.

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

Hi.

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

Hi, I just had a question for you, in relation to the destocking that occurred in the fourth quarter. Did that – can you quantify what sort of effect that had on the gross margin, if you think about kind of like the underlying gross margin performance in the quarter? Is there a number you can put to that or a basis point change you can put to that?

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

Yeah, see, giving you – so here's how it affected it. It might be a little difficult to give you an exact pinpointed number. But the unfortunate dynamic that was occurring is, as I kind of mentioned in the answer to Jason, as we were experiencing significant growth and success on the innovation and in some of the areas where we have outsourced volume, none of the reduction in inventory would have occurred in those areas as you would imagine.

So, we were pumping through pretty much what was needed in real time. It was more the established businesses that are more turn businesses that happen to be our big brands, our margin-advantage brands where you saw the impact come. So, you had this if you think about an overall top line number that was slightly below where we expected, but then the composition of it to be more weighted to the lower margin innovation or outsourced innovation as we took out some of that. So, it absolutely played a role and contributed to what we're calling the mix pressure that was the other contributor beyond the higher inflation. So that's a bit of the dynamics.

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I think if you look at our overall fourth quarter and you said okay versus our expectation, it's pretty balanced almost 50/50 between what we would have seen in the higher run up of costs in freight or packaging as well as this mix dynamic that I just explained.

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

A

As Mark said, Chris, I mean a lot of it was in Birds Eye and some of the kind of core Grocery brands, which tends to be margin accretive businesses, so the fact that you had some retailer destock there, it certainly had a negative effect on the margin. I mean, obviously not the leading indicator in the fourth quarter, but certainly a negative effect.

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

A

For the contributor, for sure.

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

Q

Okay. Just quickly, so, in relation to Jason, I guess Jared's question, does that continue then in the first half or...

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

A

Oh, well, Jared.

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

Q

...we'll go with Jared, then, yeah, he'll like that. Does that continue – like the first half of the year certainly, is that getting better in 2018? I wasn't clear on when that starts to improve then?

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

A

Yeah. No, the mix we definitely believe will get better. I think it will – again, one of the big enablers for us and we're really happy that we have added Beaver Dam. It's a big platform for us to be able to address these needs on Birds Eye, which, as I said, as you stack growth over three years now, this business has just gone through a complete transformation. We will see the benefit of that as we unfold. So, the plant is coming up now, as we speak. As we get into Q2 it will start to be contributing on a more steady and regular basis.

And then as the year goes on, we'll continue to add capabilities to that facility that will allow us to further repatriate volume as we go forward. But as you think about Q1, I do think you will see that dynamic in our underlying results on margin, although, as Craig pointed out, we do expect a more steady delivery of EPS to kind of counter. So, as you're thinking about that phasing, hopefully that's helpful.

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

A

Yeah. That's the absolute point there, Chris. So, the gross margin will improve each quarter as the year progresses, but because of the tax benefit and some of the other stuff below the line, the EPS is evenly weighted,

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both greater than 10% EPS growth in the first half and second half. But the margin will be lowest in the first quarter and progress and improve as the year goes on.

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

Q

Okay. Thanks for all the color. Appreciate it.

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

A

Thank you. Yeah. Thanks, Chris.

Operator: Thank you. Our next question or comment comes from the line of Ken Zaslow from Bank of Montreal. Your line is open.

Ken Zaslow
Analyst, BMO Capital Markets (United States)

Q

Hey, good morning, everyone.

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

A

Morning.

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

A

Hey, Ken.

Ken Zaslow
Analyst, BMO Capital Markets (United States)

Q

Over the last couple of calls, you talked about the need for consolidation of Frozen for some time. I guess and, again, in addition to that co-packing issue that you've kind of indicated, why do you think it's taking so long for there to be consolidation in Frozen? And what role do you expect to be playing in that? You mentioned it several times and just trying to figure out why the pace is not as much, particularly with the co-packing issues kind of rising as well?

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

A

Yeah.

Ken Zaslow
Analyst, BMO Capital Markets (United States)

Q

So, the demand is there.

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

A

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Right, right. Yeah, that's a very astute linkage between the pieces. But I think, as we have said before, these kinds of transactions take a willing buyer and a willing seller. And part of the dynamic that I think has, perhaps, slowed the walk to this is, you go back three years ago, most of the Frozen assets in the industry were distressed assets. They were weak links in people's portfolios and the performance wasn't particularly very strong.

I think if you look at it today relative to other parts of people's portfolios, it's strengthened significantly. And so, where it might have been a problem to solve, it's now more of a strategic question to answer. And so, therefore, I think it's taking more of a catalyst to free up the resources than simply look, I want to try to get rid of something that is a drag on our results.

So, I think you're beginning to see some movement that is helping people solidify their strategic direction. I do believe as you look at those assets across the landscape there are places where they will not be core to those companies. And with the right incentive and catalyst to move, I think they will continue. I do continue to believe they will become available. And I think we, unlike many of our peers, I believe are in the best position to be the strongest buyer and partner to see and to get that done. So, trust me, when I tell you we're focused on that, we're doing everything we can to be as ready and to be as aggressive as we can to see those things happen.

Ken Zaslow
Analyst, BMO Capital Markets (United States)

Great. Thank you.

Operator: Thank you. I'm showing no additional questions in the queue at this time. I'd like to turn the conference back over to management for any closing remarks.

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

All right, thank you, Howard. Thanks, everyone for listening in. Sorry that we went a little bit over, but we wanted to try to get to everyone today. I'm around all day, so certainly reach out to me or to Tyson, if you'd like to talk about anything further. Take care.

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

Thank you, Howard.

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

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