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PRESENTATION

Operator

Good morning, ladies and gentlemen, and thank you for standing by. Welcome to the Pinnacle Foods Incorporated earnings call for the fourth quarter ended December 29, 2013.

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 and External Communications, Ms. Maria Sceppaguercio. Ms. Sceppaguercio please go ahead.

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

Thank you Howard, and good morning everyone. Thanks for joining us today.

Here with me to discuss our results for the quarter and our outlook for fiscal 2014 are Pinnacle's CEO, Bob Gamgort, and our CFO, Craig Steeneck. Earlier this morning we issued our press release for the fourth quarter of 2013. If you haven't received a copy of the release you can get one on our website at www.pinnaclefoods.com.

As you know we completed our IPO and subsequent refinancing in the second quarter of 2013. As a result, our GAAP financial results include both the benefits and one-time expenses of these transactions.

Consistent with our reporting in previous quarters and to help you understand how the IPO and refinancing impacted our results in 2013, we have provided in our release and will discuss here this morning our fourth-quarter and full-year results on an adjusted pro forma basis. This adjusted pro forma basis assumes that the IPO occurred on the first day of fiscal 2012 and that the refinancing occurred on the first day of fiscal 2013 and excludes IPO and refinancing expenses, restructuring related and other items and non-cash stock-based compensation expense, which we collectively referred to as items affecting comparability.

The Company believes that the adjusted pro forma basis provides investors with additional insight into our business and operating performance trends. While the exclusion of these items is not in accordance with GAAP, we believe that it is the most meaningful comparison and the most appropriate basis for discussion of our performance. Details of the excluded items are included in the reconciliation tables included in our release and are discussed in detail in our 10-K, which will be filed later today.

Also reconciled in our release and 10-K is adjusted EBITDA, which is a non-GAAP measure. We define adjusted EBITDA as GAAP net earnings before interest expense, income taxes and depreciation and amortization adjusted to exclude items affecting comparability.

Other adjusted metrics discussed on the call are calculated using this methodology unless otherwise indicated. In discussing our results today we will reference our performance excluding the impact of the 53rd week last year which benefited net sales and diluted EPS in the fourth quarter of 2012 by $28 million and $0.02 respectively. We have included in our release and 10-K the details regarding the impact of the 53rd week in 2012.

On October 1 of 2013 we completed the acquisition of Wish-Bone and as a result, Wish-Bone is included in our financial results in the fourth quarter for the first time. As planned, we fully transitioned the business from Unilever by yearend and Wish-Bone is now integrated into Pinnacle Systems. In terms of production, you will recall that Unilever is continuing to manufacture Wish-Bone for us under a co-manufacturing agreement that runs through early 2015 while we establish new high-speed capacity for the business in our liquid manufacturing facility in the St. Elmo, Illinois.

Finally, I have outlined in our release this morning our Board recently approved an annual long-term equity incentive plan that builds on the initial founded equity grants awarded in connection with the IPO. Given that this will now be an annual expense for Pinnacle, we will be including it in our adjusted results.

In 2014 this non-cash equity comp expense is expected to total $5.7 million after-tax, or $0.05 per diluted share. In 2013 the expense totaled $5.9 million after-tax, or $0.05 per diluted share.

Because of the now ongoing nature of this expense and to enable comparability with 2014 and beyond, we will no longer treat the 2013 expense as a discrete IPO-related adjustment, which means that beginning with 2014 reporting our adjusted results for the current and prior year will include this expense. Included in our press release is a table that lays out the expense incurred in 2013 by quarter.

Before turning the call over to Bob I would like to remind you that our discussion this morning may include forward-looking statements which are subject to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements are subject to a number of risks and uncertainties that could cause actual results to differ materially and the Company undertakes no obligation to update these statements based upon such subsequent events.

A detailed discussion of these risks and uncertainties is contained in the Company's filings with the SEC. With that I will hand it over to Bob.

Bob Gamgort *- Pinnacle Foods Inc. - CEO*

Thanks Maria, and thanks to everyone for joining us today. 2013 was very eventful for Pinnacle and I'm pleased to report that we exceeded our expectations for the year. We grew our North America retail sales by 2% excluding the 53rd week impact Maria mentioned earlier largely driven by the Wish-Bone acquisition and higher volume mix on the base business.

We outpaced the performance of our categories enabling us to grow our composite share for the year, something we have done in three of the last four years. We accelerated our in-market performance in the fourth quarter growing share on nearly every leadership plan.

We expanded our adjusted gross margin by 190 basis points through improved product mix and continued strong productivity delivery. And this enabled us to drive double-digit adjusted EBIT growth for the year.

We also meaningfully reduced our leverage profile and interest expense due to the benefits of our IPO and subsequent refinancing. Taken together these accomplishments drove adjusted diluted EPS growth of approximately 40% to $1.57, which is at the high end of our most recent guidance. In addition, we enhanced our return to shareholders by initiating a quarterly dividend program in May which we increased by 17% in the fourth quarter reflecting our confidence in our core business model and the incremental benefit of the Wish-Bone acquisition.

Taking a closer look at our North American retail business, the 2% net sales growth in 2013 was driven by our higher-margin leadership brand and the benefit of the Wish-Bone acquisition. Our Birds Eye frozen division revenue was up slightly for the year driven by growth across our leadership brands particularly a Birds Eye Voila and Birdseye Vegetable.

Birds Eye Voila grew consumption and gained share all year and Birds Eye Vegetables after a challenging start in the first half finished the year strong due to the increased marketing spend for the holidays that we discussed with you on our call last quarter. Also supporting the growth of Birds Eye Vegetables in the quarter was the benefit of our new award-winning Birds Eye Recipe Ready product line. Recipe Ready is a new line of pre-chopped and blended vegetables designed to enable faster preparation of the top main meal dishes served in America.

When combined with a protein and a few simple ingredients, Birds Eye Recipe Ready makes a family meal in less than 30 minutes for approximately $10 with no wait. This new business is off to a good start and continues to build distribution.

At year end, ACV for Recipe Ready exceeded 50% and we plan to build distribution by another 10 percentage points during 2014. Recipe Ready has received significant recognition including being named one of the top of the 25 best packaged foods in 2014 by Parents Magazine for its great taste and nutrition for both kids and parents alike.

This year we will be investing in consumer marketing to increase awareness and drive trial given the strong repeat rates on the business. Television advertising for Recipe Ready is airing now.

For the first quarter of 2014 we introduced a number of new products in our frozen portfolio that cap its new flavor trends including two new varieties of Birds Eye Chef's Favorites vegetable, a limited-edition variety for our Birds Eye Voila skillet meals line and several new Hungry Man dinners at our higher select price point.

Turning to the Duncan Hines grocery division, this business posted strong growth for the year largely driven by the Wish-Bone acquisition as well as growth of Log Cabin and Mrs. Butterworth's syrup and Vlasic pickles. While the Duncan Hines baking business was down for the year its performance improved in the fourth quarter behind incremental investment spending and new seasonal varieties during the holiday period. We introduced a new limited-edition holiday velvet seasonal cake building on the success of our award-winning Decadent line and our limited additional seasonal offering.

During the fourth quarter Duncan Hines significantly outperformed the category growing dollar consumption by almost 2% in a category that was down slightly. While we still have more work to do, we are pleased with the progress we made in Q4. We just launched Duncan Hines limited-edition spring velvet for Easter and a Decadent salted caramel brownie variety which taps into a restaurant flavor trend.

Our Vlasic business also registered share growth for the year largely due to the expansion of our Farmer's Garden line. Farmer's Garden has proven to be incremental to both the Vlasic band and the category as new consumers are attracted by this premium product. In the fourth quarter we also continued our highly effective print ad campaign and in-store support to continue to build awareness and trial.

Wish-Bone, which was included in our fourth-quarter results, performed in line with our expectations. Market share results have been under pressure as we expected due to pulling back from a heavy promotional levels on the business during the sale process.

For the quarter and the year, Wish-Bone contributed $0.02 to our diluted EPS as expected. We've successfully completed the integration of Wish-Bone by yearend and we are focused on implementing the plans we developed for the business. Much of what you will see in the first half of 2014 reflects programs put in place before the acquisition.

We expect share to remain somewhat under pressure in the first half as we cycle significant promotional activity last year. You should expect to see our influence on Wish-Bone in the marketplace in the second half of this year with innovation to reach the market in 2015.

Outside of North America retail our specialty foods segment experienced a net sales decline for the year due to our planned exit of low-margin unbranded businesses. Adjusted EBIT for this business was flat despite the decline in sales.

Shifting to the cost side of our P&L, our productivity program known as MVP, or maximizing value through productivity, is now well embedded in our culture enabling us to deliver consistently strong results. Total productivity was 4% of cost of products sold in 2013 exceeding inflation for the year, which totaled approximately 2.5%.

Our productivity results coupled with improved product mix drove the 190 basis point improvement in our adjusted gross margin for the year. We again generated excellent capital results and continue to leverage our lean and efficient overhead structure, which is serving us well in a low growth industry. In fact, our free cash flow yield in the high single digits places us at the top of the industry.

As we look towards 2014 we will continue to follow the strategy that has driven our success. In a nutshell this involves investing differentially in our portfolio with a focus on our higher-margin leadership brands driving gross margin improvement through continued improvement in product mix and strong productivity programs, generating attractive free cash flow driven by our industry-leading free cash flow conversion enabled by our lean overhead structure and tight management of working capital and realizing the benefits of the Wish-Bone acquisition.

In terms of our outlook for 2014, we expect to achieve another year of double-digit growth and diluted earnings per share. This performance would again exceed our long-term growth target due to the incremental benefit of the Wish-Bone acquisition.

For 2014 we expect diluted EPS in the range of $1.70 to $1.75 after giving it back to the stock-based compensation expense. As Maria mentioned, we are going to report our results beginning in 2014 with this expense included in the current and prior year.

On a like-for-like basis our diluted EPS range for 2014 translates into growth of 12% to 15% versus diluted EPS of $1.52 in 2013. With that let me hand it over to Craig.

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

Thanks, Bob and good morning, everyone. I'll begin with the fourth-quarter results and quickly touch on some of the details for the full year that have not already been covered.

As outlined in our release, the impact of the 53rd week was more significant to the fourth-quarter comparison than to the full year. To help you understand the underlying trends in the business we have provided this impact for both the quarter and the full year.

Turning to the quarter and starting with sales, consolidated net sales in the fourth quarter including the $28 million benefit from the 53rd week in 2012, increased 0.6% to $709.3 million. Excluding the extra week last year Q4 net sales increased nearly 5% driven by North America retail partially offset by specialty foods.

North America retail net sales advanced 5.7% excluding the impact of the 53rd week reflecting the benefit of Wish-Bone and higher volume mix on the base business partially offset by lower net pricing. For our frozen division, net sales were down slightly in the quarter due to a decline in net realized pricing which offset solid growth in volume mix. Importantly, all the frozen leadership brands registered net sales growth in the fourth quarter.

For our Duncan Hines division, net sales advanced 12.5% largely due to Wish-Bone and higher volume mix on the base business driven by growth from the leadership brand portfolio. Lower net realized pricing and unfavorable foreign currency translation partially offset the growth drivers in the quarter.

Finally, for our specialty foods segment net sales were down about 1% in the fourth quarter excluding the 53rd week impact. This performance reflected a 1.4% decline in volume mix and lower net pricing.

Partially offsetting these factors was the benefit of the Wish-Bone food service business, which contributed 1.2% to the segment in the quarter. For the year despite a 7.6% decline in net sales, specialty EBIT was flat versus year ago.

Looking to 2014 for the segment net sales for the private label canned meat business are expected to remain under pressure particularly in the first quarter due to reduced government assistance programs which has intensified competitive bidding for this business. However, despite the headwind, we expect specialty EBIT to be up for the year.

Turning to gross profit, we continue to make very good progress in this area. For the quarter excluding items affecting comparability, our gross margin expanded to 28.8%, which is a 40 basis point improvement versus Q4, 2012 excluding the 53rd week.

This performance reflected continued gross margin expansion on the base business due to productivity in excess of inflation and favorable product mix as well as the inclusion of the higher-margin Wish-Bone business. For the year, our adjusted gross margin expanded by 190 basis points, as Bob previously mentioned.

Turning to productivity, for the quarter our results were in line with our expectation at 4.3% of cost of products sold bringing productivity for the year in at 4%, the high end of our 3% to 4% targeted range. Turning to input cost inflation, for the quarter, input cost inflation totaled 3% bringing the year in at about 2.5% as expected.

The positive relationship in the quarter on productivity excluding input cost inflation enabled us to not only to increase investment behind our leadership brands but also drive gross margin expansion. Adjusted EBITDA totaled $155.4 million in the quarter, which was up 6% excluding the 53rd week impact. This performance reflected the gross margin expansion partially offset by higher SG&A due primarily to the inclusion of Wish-Bone.

Interest expense for the quarter on an adjusted pro forma basis declined 23% to $24.3 million and was down 37% to $83.7 million for the year. This improvement reflected the benefits of the IPO and our refinancing actions partially offset by additional Wish-Bone acquisition debt.

You will recall that we entered into interest rate swaps through lock-in rates on approximately 80% of our debt for the next few years. Our total interest expense for 2014 is estimated to be approximately $100 million. Adjusted pro forma net earnings totaled $67.6 million, or $.58 per diluted share in the quarter.

This represents a 15% increase versus year ago excluding the impact of the 53rd week. The growth in net earnings reflected the improvement in gross profit and a significant reduction in interest expense partially offset by increased marketing investment behind our leadership brands and higher administrative expenses primarily related to Wish-Bone.

As expected, Wish-Bone contributed $0.02 in diluted EPS for the quarter. Cash flow from operations totaled $262 million in 2013 compared to $203 million in 2012. This improvement was largely driven by the growth in adjusted EBITDA and lower cash interest expense.

Capital expenditures for the year totaled $84 million compared to $78 million in 2012. We did not make any meaningful capital investments for Wish-Bone in 2013 and continue to expect that we will invest approximately $40 million to $50 million in capital in 2014 to integrate Wish-Bone manufacturing into our St. Elmo facility.

As you may recall, in January of this year we entered into a definitive agreement to acquire the assets of Duncan Hines co-packer Gilster-Mary Lee Corporation for a total purchase price of $16.5 million plus the value of inventories. With 10% of that paid at signing and the balance due under a four year note payable the transaction is expected to close early in the second quarter and acquiring this business enables us to invest in upgrading the facility, which will enhance our innovation capabilities and generate productivity savings over time.

Turning to debt, our yearend total debt was $2.5 billion including $2.1 billion in term loans due 2020 and $350 million in 4 and 7/8% senior notes due 2021. We had no outstanding revolver borrowings during the quarter and cash on hand at yearend totaled $117 million bringing our net debt to $2.4 billion.

Pro forma for the Wish-Bone acquisition our net leverage at the end of the year was 4.66 times. In terms of the outlook for 2014, we expect diluted EPS in the range of $1.70 to $1.75 compared to diluted EPS of $1.52 in 2013 after giving effect to stock-based compensation expense and items affecting comparability in both years.

This outlook includes the following assumptions. Input cost inflation for 2014 is estimated at 2%, with Q1 inflation estimated to be the highest of the year due to higher cost inventory from 2013 being carried into 2014.

On productivity, we expect savings in 2014 consistent with our long-range target of 3% to 4% of cost of products sold. Also consistent with previous years we expect the savings to be greater in the second half versus the first half.

It is worth noting that our productivity estimate does not include the synergies we expect from the Wish-Bone acquisition. Interest expense is expected to be $100 million with $92 million in cash interest and $8 million in non-cash interest expense.

The effective tax rate is estimated at 38.9%. The full-year weighted average diluted share count is estimated to be 117.2 million shares including the impact of the new long-term equity incentive program.

Capital expenditures for the year is expected to be in the range of $120 million to $130 million including the $40 million to $50 million we anticipate spending on the Wish-Bone capital. In addition, depreciation and amortization is expected to total $80 million.

Finally, let me take a moment to talk a bit about what we can expect from a quarterly cadence standpoint as the year unfolds. As we mentioned, input cost inflation is the highest in Q1 and we expect it to steadily decline throughout the year.

In addition, productivity is expected, again, to be stronger in the second half. Therefore, the positive relationship of these two factors improves throughout the year and that will be evident in our results.

In addition, as you are all well aware, the benefit of Easter in 2014 shifts out of the first quarter and into the second quarter. For us we estimate the impact of this shift is about 2% to 3% in consolidated net sales from Q1 into Q2 and the corresponding impact on our diluted EPS is estimated approximately $0.025 that will move out of Q1 into Q2. With that I will turn the call back to Howard to open up the questions.

QUESTION AND ANSWER

Operator

(Operator Instructions). Andrew Lazar, Barclays.

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

So, Bob, you mentioned in the prepared remarks the pricing component in the North America retail piece both frozen and Duncan had come in from sequentially from the third quarter and I guess my sense is, tell me if I am wrong about this, but most of that was the incremental investment that you had talked about putting into the fourth quarter based on some of the upside that you had earlier in the year. If that's the case I am just curious on how you think that plays out as we go into 2014. I think on the last call you mentioned that was probably the biggest factor, swing factor if you will, because you needed to have this positive relationship around productivity of the cost and just didn't know exactly where that promotional side or pricing side would lay out.

So trying to get a sense we are now two months into the first quarter and just trying to get a sense of how that pricing component plays out for the year. At this stage I guess.

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

You described it correctly. When we were talking with you all the way back to the second quarter, our forecast was that the fourth quarter would be more promotionally intensive and that we would have to invest some of the overachievement in the first half of the year into marketing as well as pricing in the fourth quarter to be successful.

Clearly the results were very successful because we gained share in 10 out of 13 categories in which we compete in the fourth quarter and we grew consumption in the absolute despite the fact that our categories were actually down in aggregate. So no question it worked.

In terms of our ability to cover that still with gross margin improvement during the quarter, I think speaks volumes to the business model that we've created. As we are going into 2014 our share performance in the first month was outstanding. And pricing competition I would say it's moderate right now.

We knew that the fourth quarter was going to be very intensive. But it was more in the -- but January is more in line with what we expected, a more normalization of pricing and promotion.

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

Great. That's very helpful, and then your topline target obviously over time is in line with category growth. I guess would you like to posit your best guess around, or at least what your expectation is in terms of internal forecasts around how you are thinking about the overall category growth for you in 2014?

I'm assuming not a big change from what we saw more recently maybe in 2013. But I wanted to get your sense.

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

Sure. Our long-term target is to grow in line with our categories. We have done better than that in three out of the last four years. We did better than that in 2013 and we accelerated our performance in the fourth quarter.

That has translated over time into an absolute growth rate of about 1% to 2%. And so as we look forward to 2014 we don't see things changing that much. And so we built our plan on, I think what we would all agree over the long term is a fairly low growth rate in the absolute but being able to leverage our productivity, our product mix and our innovation to continue to improve profitability and expand gross margin.

As we described here, how we are thinking about productivity and inflation for 2014, there is a very favorable relationship. We continue to deliver very high end in the industry of productivity and we are expecting our inflation to be in the 2% range next year.

So of course the wildcard is how much needs to be spent back on pricing. We've reserved money to be able to do that and we don't expect much of a turnaround in the topline. Despite that we are confident in our EPS forecast of 12% to 15%.

Andrew Lazar *- Barclays Capital - Analyst*

Thanks, last very quick one, you mentioned that the long-term productivity goal doesn't include the incremental synergies that will come from Wish-Bone. It is still the case though that those synergies really don't start to flow through probably until late 2015 into 2016, is that right?

Bob Gamgort *- Pinnacle Foods Inc. - CEO*

Well, yes, 2015 is where we are going to realize the majority of them and that's consistent with the startup of our new production facility in St. Elmo, Illinois. We've been able to capture some of the SG&A synergy and in some of the logistics pieces earlier than that, but that is correct. That's when we really expect to start tracking towards that run rate, EBITDA of $65 million that we had talked about at the time of the acquisition.

Andrew Lazar *- Barclays Capital - Analyst*

Thanks very much.

Operator

Farha Aslam, Stephens Inc.

Farha Aslam *- Stephens Inc. - Analyst*

Quick question on pricing again. Can you talk about sort of how you are thinking about your pricing architecture and innovation going into next year particularly with your good, better, best strategy?

Bob Gamgort *- Pinnacle Foods Inc. - CEO*

Sure, you said did we hit pricing architecture? Yes, as you know through our previous conversations, when we talk about our ability to expand our gross margin it comes primarily from our leadership brands growing faster than our foundation brands and our leadership brands being more profitable and then also all the innovation that we introduced being margin accretive, and that's exactly what happened in 2013.

So you're right in that as we talked about, for example, in the fourth quarter having to get more promotional on certain price -- certain segments. We really are trying to trade people up to higher-margin, less promoted items and we've been very successful in doing that.

I think probably the best example of that is in the month of December on the Birds Eye Vegetable business where we did have to be more promotional on our more, on our line that is most closely compared to competitors. But at the same time we were able to mix people up, which includes our margin.

So the net result in the month of December on Birds Eye was that we gained substantial share and our average price was actually up. And that is that benefit of this good, better, best framework that you talked about where we are able to trade people up to our more profitable segments while at the same time being price competitive on our more -- segments that compare more with competition.

Farha Aslam *- Stephens Inc. - Analyst*

That's helpful. And then when you look at the M&A environment right now, can you just give us some thoughts on current deals and flow that you're seeing and areas of interest?

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

Sure. We are always active in M&A and it is a combination as we always talk about inbound opportunities as well as those that we are proactively pursuing. You see some of the articles that are out there in the press and it seems like there are an increasing number of deals that are popping up in the industry right now.

We'll see if they get all the way to a completion. We know a lot of people are thinking about it right now.

We're having more productive conversations. And obviously we consider ourselves to be a consolidator in industry and we would love to be able to add incremental value by doing that.

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

And what type of leverage would you be willing to take on for the right acquisition?

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

At the time of the IPO we talked about going up to as high as low to mid-5s for the right strategic acquisition. After the IPO we were at 4.2 leverage, we took on debt for the Wish-Bone acquisition, took us up to 4.7. We actually ended the year below that.

And we will be on our current trajectory, we'll be back to that 4.2 range around the end of the year, which gives you a sense of the free cash flow potential of this business. I think those are the guardrails that we're still thinking about right now that we would go as high as the low to mid 5s for the right deal.

And that of course assumes that it is funded 100% by debt and that we don't use the option of equity to help pay for that acquisition. But with the current cost of debt that we are seeing right now it is still a very attractive tool to use in acquisition.

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

Very helpful. Thank you.

Operator

Jonathan Feeney, Janney Capital Markets.

Jonathan Feeney - ***Janney Montgomery Scott - Analyst***

I wanted to dig into your input cost guidance a little bit both in terms of its cadence over the course of the year and in so what I can see of the spot costs it would seem to me as if there is a period in the year that if nothing else changed you actually start to get a tailwind. So I first of all want to figure out if you can give us a sense of what the magnitude of that is sort of like first quarter and then how much, if it ever turned sort of to be a tailwind, how big it could be second half of the year.

And technically maybe just a comment on the mix of your input and the specific effect that any of this drought in vegetable pricing that I am reading about may or may not be affecting your outlook for cost in 2014. Thanks.

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

Sure. So, Jonathan, first of all for the year, for 2014 the guidance is that it is going to be a 2% inflation. As you decompose that a bit the overall commodity basket, which is obviously the most significant part of our input cost basket will move from inflation to deflation in the second half of the year.

Where we're seeing some of the inflation is coming from our logistics area where you are looking at much tighter truck capacity and in our plant conversion costs where utilities and salary increases are driving inflation. The early part of the year is negatively influenced by the fact that we are carrying higher cost inventory that we have built from Q4, where we showed the inflation was 3%, that carrying into the early part of the year.

We have great line of sight relative to this area of the P&L. We're 50% to 75% covered, we are fully covered for the first half and the only thing that really remains uncovered is some of the tradable grains in the back half.

So we feel very comfortable with that estimate. And to answer your last question, the droughts in California have very little effect on this portfolio. Tomatoes and garlic are the largest items that we procure from California and those are insignificant portions of our spend.

Jonathan Feeney *- Janney Montgomery Scott - Analyst*

Thanks, and just one other question, if I could. Could you talk to the level of marketing investment you're budgeting for in the context of guidance right now and how that splits between the leadership and the foundation brands?

Bob Gamgort *- Pinnacle Foods Inc. - CEO*

Sure. We haven't talked about specific numbers but there are -- all the numbers that we talked about here have a significant increase in our marketing budget. And in addition to spending more on our leadership brand, we also have the addition of Wish-Bone.

As we talked about during the time of the Wish-Bone acquisition, our plan was to restore marketing to this brand and start driving it as well as the category. So that is all in those numbers for 2014 and almost all of our spend by the way is focused on our leadership brand.

Jonathan Feeney *- Janney Montgomery Scott - Analyst*

Good to know. Thank you very much.

Operator

Brian Hunt, Wells Fargo.

Brian Hunt *- Wells Fargo Securities, LLC - Analyst*

I was wondering if you can talk a little bit about your product portfolio and how it relates to the decline in SNAP payments. What exactly is your anticipation of your customer mix and the potential impact on reduced SNAP payments on your sales in 2014?

Bob Gamgort *- Pinnacle Foods Inc. - CEO*

The reduction in SNAP really cuts across the entire food industry. I think the best estimate that we've seen is that it takes about 1% of sales out.

So add that to the list of many things that are holding down growth in the food industry, which is why we've been able to build -- we needed to build a model that could do well despite the top-line growth and also focus on continuing to build share. Our portfolio as we look at it is impacted on probably an average basis, not much different than food in total.

We've got a couple of really small segments within our specialty division. We do some private label canned meat business. It is not a surprise that that would have a slightly heavier impact from a reduction in SNAP and in terms of its impact on our profitability it is minimal, so I look at as really one of the two or three most significant industry headwinds that we are all facing right now.

Brian Hunt *- Wells Fargo Securities, LLC - Analyst*

Okay, and then my next question is about Gilster-Mary Lee. When you look at most acquisitions in this space today it is branded companies, their multiples are quite large, 10 times EBITDA or more. Can you talk about in general terms maybe what you paid for Gilster-Mary Lee and the type of synergies you are anticipating by integrating that acquisition into your business?

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

It's obviously you can't look at the acquisition of a co-packer against comparing that to acquisitions of branded food companies in the industry. I think as you will recall this was a long-term contract that we have had in place for nearly 10 years. The contract was going to expire in mid-2015.

We just felt it was an opportunity for us to be able to acquire the facility and the related inventories, bring that into our network. That way we have over 90% of our business manufactured in our own facilities versus outside through co-packers.

We will invest some capital in the facility, which is included as part of our normal CapEx estimate. And really it is going to give us a much more significant benefit as it relates to innovation capability and working on the Duncan Hines portfolio. And we will get some synergies but those will be more spread over time, certainly 2015 and beyond.

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

And those productivity numbers will be built into our 3% to 4% ongoing target. That will just get incorporated as another one of our sites and we'll start driving productivity in our normal way.

But the real benefit of it is to get control of our supply chain, make sure that we are driving the best quality. And then as Craig said, it gives us a lot more flexibility from an innovation standpoint.

Brian Hunt - ***Wells Fargo Securities, LLC - Analyst***

And my last question is when you look at historically, usually takes the industry about six months to pass through cost deflation into their P&L, certainly it's reflected. And so your numbers and what you outlined makes a lot of sense based on what we were anticipating.

However, can you talk about what you believe will happen to promotional cadence with the industry overall given the outlook for deflation for most companies that have grain-based products as we work throughout 2014?

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

I think that most companies, again there are head-to-head competitors, that's who I would want to comment on, have got a cost basket that is going to look very similar to ours. I think our differentiator is our productivity levels, which is that is proprietary, you can drive productivity above your competitors. It is hard to necessarily buy better than your competitors.

But I think that everybody in our space is going to be looking at inflation of about 2%. I don't know what their productivity levels are going to be.

So it's not as if there is this tremendous windfall that is going to spark a price war, in my opinion. I think whenever, as we continue to see an industry where there isn't a lot of top-line growth and the price environment is more general, there's always a temptation to promote.

We saw what was happening last year and really predicted that it was going to spike up in the fourth quarter, which is exactly what has happened. It's really too early to tell what is going to happen in the back half of the year.

If it's going to happen I would expect it to. And as I said right now it is very competitive but it has, I would describe it as more normal levels consistent with what we've seen over the past couple of years.

Brian Hunt - ***Wells Fargo Securities, LLC - Analyst***

Got it. Bob and Craig, thanks for your time.

Operator

Bryan Spillane, Bank of America.

Bryan Spillane *- BofA Merrill Lynch - Analyst*

Just two follow-up questions. I guess the first just sort of assessing trying to get some feel for consumer responsiveness to some of your programs.

Could you talk a little bit about as you flex in the promotion of the fourth quarter how you felt like the consumer responded to that, did you see the elasticity that you were expecting to see? And I guess as you go into the first quarter and you're putting some more new products in place, just your confidence level I guess that the consumer is receptive to being incentive to do something additional to buy the product whether it's new products, a new marketing campaign, a lower price points. Do you feel like the consumer is sort of coming off the mat and beginning to respond to some of that?

Bob Gamgort *- Pinnacle Foods Inc. - CEO*

Sure. I think the answer is it all depends on the execution. And if the execution is there whether it's a promotional program, a marketing campaign or a new product offering, the consumer is as responsive as ever.

We hear a lot about this promotions fatigue. I think a lot of that relates to temporary price reductions on shelf, which are highly ineffective right now, and the longer the period of time which those promotions run there is actually more fatigue.

One of the benefits that we had in the fourth quarter is not only did we reserve the money to be able to invest and be competitive in the fourth quarter, is that we committed to it early enough that we were able to lock in the more favorable promotional events and also get our organization in place to be able to execute it in a really terrific way and that is why we got the lift as a result of that.

Similarly with the new products that we are introducing, Recipe Ready off to a very good start, almost a one share of the category right now. And we are just over 50% distribution and building on that.

And the television advertising just started, so that 1% share was before we turned on the television. As long as you are introducing products that meet their need and enable them to have a better experience or more convenience at a good value it's a home run.

So when we talk about premiumisation they are even good, better, best, it's not as if we're trying to trade people up to super high price points or to products that they don't need. These are all absolutely needed products within the household and in most cases, if not all cases, they are higher margin to us but also a great value for consumers.

So again I will use Recipe Ready as an example. It's a higher margin for us but there's no prep time and zero waste in this product for the consumer. And so they view this as actually a cost savings, not a price up charge.

As long as we are building products out there with that kind of insight behind them and continue to execute at retail the way that we have, I have a lot of confidence in our ability to continue to perform in-line or better than our categories.

Bryan Spillane *- BofA Merrill Lynch - Analyst*

That's really helpful. And then just the second question following up on M&A, could you talk a little bit about has anything changed in terms of where you are looking in terms of adjacencies, categories -- is the frozen food category more or less attractive to you today now that almost a year has gone by since the IPO?

Other categories that are more attractive? Just trying to get a sense for whether as you have gone further down this path whether there is any change in view in terms of maybe where you would be more attracted and less attracted.

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

Sure, I think our strategy is largely consistent with what it has been and what we have communicated in the past. And I think Wish-Bone is a great example of that, our criteria for an acquisition actually happening and then how we are seeing this integrated in plans that we have for and especially in the second half of 2014.

I think it also gives us confidence that it is the right strategy. So just to quickly reiterate, we are looking for businesses that are North American, in our existing or adjacent categories, and I will come and talk a little bit about adjacencies, high synergy potential, and we're also looking for businesses that are leaders or close to leadership, not buying distressed businesses.

And so that's the criteria that we use as we evaluate all of the opportunities that are in front of us right now. And you can imagine that they all score differently across that criteria and it is our judgment in the end to say which is the right acquisition that makes this Company better over the long term.

Ideally we would tap into adjacencies that were categories that were growing faster than our average. The reality of that is that means you typically have to go out of the center of the store or frozen, and as you see some of the multiples you pay an excessively high multiple for that growth.

We know ourselves really well. We've been able to build a business model that can deliver great shareholder return, also the growth that exists within frozen and center of the store, and we also like to take businesses that other people have declared nonstrategic or they've run out of ideas and really be able to drive them further.

I think Birds Eye and the growth that we've experienced on that business, and we feel like to some degree we are just getting started on that business, I think is a perfect example of that. We are still very interested in frozen. I am always amazed every time I read any article about frozen, it is generally negative.

As we already talked about there are different pockets of categories within frozen. We are fortunate to be in categories that are growing. Most of the negativity is around single-serve frozen entrees, which only represents about 5% of our sales.

So we know that not only we can generate significant synergies in frozen but we also have a lot of confidence that we can drive growth in the right segments as well.

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

Thank you very much.

Operator

Robert Moskow, Credit Suisse.

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

I wanted to follow-up on the Gilster buy out also because I tried to do some math as to what the margins are on baking mixes currently and correct me if I'm wrong, but I thought they were below the Company average, which is around 27%, so it struck me as odd that that type of business would have below Company average margins because it's sugar and cocoa in a box. I was excited about the possibility of buying out the co-packer because I thought that would be kind of the catalyst for margins to go quite a bit higher.

Am I roughly in the right ballpark for what the margins are and are those typical in the industry? It just strikes me that this could be a much higher gross margin business based on the simplicity of it.

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

Yes, clearly from a manufacturing standpoint the simplicity of it is, I think you have described really well. If you go back and you look at three years ago, four years ago, there was significant inflation all those in input costs, you talked about, sugar, cocoa and the grains that go in there as well.

There's been quite an improvement in the cost structure of that. The profitability across the board has improved in that segment as a result of an improvement or normalization of prices.

The real opportunity in the category is to offer differentiated products that you can charge a premium price for and promote less. I think our Decadent line is a great example of that. It continues to grow, it continues to expand share.

We charge a somewhat premium price for that and we get a higher margin as a result. We promote it less than we do on our core line and that is really the key to the future.

There is some leverage on the cost side of the P&L but I would argue that there is a lot of efficiency across the industry on this because of the simplicity that you have described. So when we take a look at taking control of this co-manufacture and bringing that production in-house, that's why we say, yes, there's going to be some benefit on productivity. It will be in our normal 3% to 4% that we target over the long term but the real benefit is for us to have more flexibility and innovation, which allows us to do more differentiated products, which is the real carrot in this industry to drive profitability.

The opportunity is value added not so much in the supply chain side because it is not a particularly complex manufacturing process.

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

Okay. I guess I will -- a different question then, there's newswire reports that Ragu is up for sale and it is from a player that you have done a deal with before. And people have asked this question already in many different ways, but this is a category that is, has been declining for many years, spaghetti sauce.

What is your appetite on a category perspective for those types of situations? On the one hand you are looking for growth businesses but you also said you are also looking for brands that you think that our non-core by their seller. So you are not just buying growth brands, you are also buying things that could be declining as well but could be fixed?

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

Yes, let me clarify what I said before in case I wasn't crystal clear. In a perfect world you would meet all the criteria that I talked about before and it would be a faster growing category. In reality to be able to meet all that criteria is unlikely, and as I said before anything that has more of a growth element to it you're going to pay a significant premium for as you would expect in an industry that has little growth right now.

So we are not afraid of categories that are flat or declining. We're not afraid of brands, especially leadership or close to leadership brands, that have underperformed as long as we've got the game plan to be able to turn that performance around.

We would not buy any business and just hold onto it and continue to manage it the way that it has been managed and expect the performance that was in the past to continue. We would only do it if we had the game plan to turn it around.

We haven't done a lot of work on that category. I read the same article that you guys have.

We haven't done a lot of work in that category, so it is hard for me to speak specifically on that one, but think about the salad dressing category in Wish-Bone and even when we acquired Birds Eye, those were not growth businesses. We had to turn Birds Eye, for example, into a growth business through a lot of the innovation that we launched.

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

And, Rob, the differentiating factor is the synergy potential that the business can generate, which makes Wish-Bone such a good acquisition for us as it meets all the criteria that Bob articulated. And with us being able to in-source the manufacturing, we can generate significant synergies from that.

As we analyze and look at acquisitions the synergy potential in addition to growth characteristics and center of the store frozen brands that has adjacencies to our portfolio, this is a significant factor for us.

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

And those synergies allow us to reinvest in the marketing and innovation, which is exactly what we're going to be doing in the back half of the year on Wish-Bone. That's how the model starts to work much better.

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

Got it. Thanks for the color.

Operator

David Palmer, RBC Capital Markets.

David Palmer - ***RBC Capital Markets - Analyst***

As a follow-up to Andrew's question earlier, the synergies -- I think you answered that the synergies would reach a full run rate in 2015. Could you just give a little color as to how you see those synergies ramping through that -- over the next couple of years?

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

Sure. So in answering the question, we will get to full -- the overall Wishbone business, once the full synergies are realized, we estimate will be around about $65 million in EBITDA. We'll get to that run rate in the second quarter of 2015, once we have fully integrated the manufacturing into our St. Elmo liquid manufacturing facility.

There are some synergy benefits that exist in 2014, but in the grandiose scheme they are relatively minor. They are in SG&A and a little bit on the procurement and logistics side. So that's obviously been incorporated relative to our estimate. You will get a full-year benefit once you get to 2016, but you will get three quarters of benefit once the manufacturing is integrated at the end of Q1 of 2015.

David Palmer - ***RBC Capital Markets - Analyst***

Great. And a separate question on Birds Eye. It feels like in 2013, one of the emerging trends or an accelerating trend was the perimeter of that supermarket doing better, produce, meats, dairy. It feels like Birds Eye, particularly with the convenient advantage of steam in the bag, is in some way participating in that wellness trend or at least outperforming other frozen.

Do you think that is something you can push harder on? Is that a focus for you heading into this year pushing harder on that trademark and steam in the bag?

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

Yes, I think, again, I think we're just getting started on this brand. If you take a look at a lot of the macro health and wellness trends that are out there and you look at the debate over what is health and wellness and the different definitions of health and wellness, the one that everybody can agree with is the fact that most Americans do not eat enough fruits and vegetables.

In fact, the numbers are pretty startling. Less than 10% of Americans eat the minimum recommended amount of fruits and vegetables.

So we see this as a very expandable category and this is really vegetables of all forms. Our opportunity is to continue doing what we have been doing, which is look at the transformation of frozen vegetables.

It is gone from a frozen block of broccoli that we all grew up with to now steam fresh bags, to Chef's Favorites, to Birds Eye Voila. And then the most recent launch being Recipe ready where we are able to tap into a lot of those tastes and wellness trends and convenience and offer people a great option for how to incorporate more fruits and vegetables into their lives.

And I don't think that this is at all a trade-off between fresh and frozen. I think it is completely expandable. And that is why when we look at the macro trends on health and wellness we feel like we are really well positioned with this brand and have not taken full advantage of that trend despite the fact that we've been able to grow it to date.

David Palmer - ***RBC Capital Markets - Analyst***

Thanks. And one last separate question on gluten-free in baking.

It feels like one of your competitors has pursued that more aggressively than you have with Duncan. Is that something that is on the menu for you or how do you feel about having those offerings?

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

It's part of gluten-free and total. Having been in the industry for almost 30 years now we have seen health and wellness trends come and go, and what I don't know is gluten-free going to be for the long-term or not, although it is making a lot of impact and noise right now.

If you take a look at our entire portfolio across Pinnacle, about 50% of our products are gluten-free as we chose to certify and label them as such. All of the work that we have done with our consumers suggest that that isn't that attractive to them.

We have the ability to introduce gluten-free versions of our baking mixes. Our concern, to be quite frank with you, is that the quality of those disappoint and we don't see them as sustainable as some other formats.

But if there is a breakthrough that allows us to do it in a way that meets the Duncan Hines taste profile and quality we would accelerate that. But I think most people have been disappointed with those products after they tried them unless they are absolutely, they absolutely need them because of celiac disease, but that's a relatively small percentage of people that are buying gluten-free right now.

David Palmer - ***RBC Capital Markets - Analyst***

Thank you very much.

Operator

Eric Larson, CL King & Associates.

Eric Larson - ***CL King & Associates - Analyst***

I have a couple of questions, most of them have been answered, but it relates to the Recipe Ready line and you are now at about 50% ACV across the country. How incremental are those sales and has it had any impact on various SKUs, particularly the steam fresh line where you already have a bag of frozen vegetables with a medley of vegetables in those bags?

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

Now. It's a great question. 80% of the sales of Recipe Ready are incremental.

And the way that the vegetable category splits out is about half of the consumption is for ingredients and half of it is used as a side dish. Steam fresh is clearly positioned as the side dish opportunity and that is why we have been able to innovate beyond just straight and mixed vegetables into the restaurant quality side dishes under Chef's Favorite.

Recipe Ready was really an innovation targeted at renovating the ingredient side of the portfolio and really attracts a different consumer used in a more unique occasion and as a result it is very incremental. It is interesting that we originally envisioned that as kind of a small regional path and there was so much excitement from the retail community because they saw exactly this potential that we are talking about here, that we ended up accelerating it and really stretching our capacity in the early days because they saw this as an opportunity to bring incremental sales to the freezer case and also just to expand consumption of vegetables. And that is exactly the way it is played out so far.

Eric Larson *- CL King & Associates - Analyst*

Okay, good. And then just a related question to that.

I believe you said that you were planning on trying to capture another 10 points of ACV in 2014. I guess the question that I had was it seems like that ACV number, it seems like to me, it seems like you could capture more distribution from that if in fact performance is good. Is it a matter of balancing the rollout, the investment of the rollout for that brand this year, or why would you not be targeting something north of a 60% ACV in that brand?

Bob Gamgort *- Pinnacle Foods Inc. - CEO*

I think we'll get it by the time the year ends, we will be closer to 70% than we will 60%, and that's a good distribution base. The decision to go beyond that gets into slotting costs and the amount that we want to invest in some alternate retailers or channels.

70% ACV distribution is great. And obviously we feel like we've got enough coverage right now that we've turned on the national television advertising. And we will start to see velocity increase as a result of that.

Eric Larson *- CL King & Associates - Analyst*

All right. Thanks, guys.

Operator

Ken Zaslow, Damon Capital.

Ken Zaslow *- BMO Capital Markets - Analyst*

Just two questions as a follow-up. One is, you don't talk a lot about foundation brands. And I get that they are not focused but it seems like if I look at the sales growth of these businesses they may be a little bit below the zero and is it really worth trying to find some of these that might be able to be a little bit more growthier and maybe devote a little resources to it?

It just seems like you are starving them. And maybe these are ones that you can end up selling (technical difficulties).

Bob Gamgort *- Pinnacle Foods Inc. - CEO*

Ken, I appreciate you asking that question because in the interest of time we typically focus our conversation on our leadership brands, but there is actually a lot of work that goes on on foundation brands. As we talked about upfront when we define leadership versus foundation we spend most of our marketing dollars on leadership brands and we also are driving more true innovation on our leadership brands.

And the reason is because they are the most responsive to that marketing, to an earlier question, and they also are the ones that have the highest potential for innovation. But the foundation brands, we have to constantly renovate those, freshen the benefits, bring new benefits to them, make sure that we've got all of the execution in-store absolutely perfect with them.

So we have a whole team that is focused against those foundation brands that works very hard to get them. So I am actually appreciate the opportunity to talk about them a little bit.

If you take a look, for example, our share performance in the month of January of the six foundation brands that we track we grew share in five out of the six. And that doesn't happen unless you are focused on them and you are improving.

We've got a lot of ideas that we haven't really talked about yet on foundation brands that we will probably on the next call. We talk about improving the packaging delivery on some of them, introducing new flavors, a lot of line extensions that go in there.

I will make sure that we actually highlight those on our next call so that we don't neglect them in these conversations, but our performance on foundation brands actually has been pretty good. I think to your other point, can a foundation brand become a leadership brand? Yes.

If we see that we are able to do something with them that taps into one of those trends, sure we would be happy to be able to invest more in that. But I think the message you have got to take away is that we are very focused on where we place our investment.

And one of the reasons that we are happy with the consumer lift that we are getting on our marketing programs, promotion programs in innovation is because we understand which of those brands are most responsive to that type of activity. And if we were to spend money and activity equally across the portfolio we wouldn't be happy with that result.

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

And Ken, we have seen a marked improvement in the gross margin percentage of those foundation brands. So the productivity program is clearly working there as has the renovation, and anything related to pricing we have seen a very nice improvement in the gross margin percent in foundation in 2013 and anticipate in 2014.

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

My last question is, when you talk took about cost savings, you don't give us a ton of detail. What are the key levers within the efficiency programs that you are looking to do and is there opportunities to accelerate or there could be snafus one way or the other, how do we actually think about, how did you guys have been exceptional at delivering the cost savings opportunities? But the question is are there opportunities to get to exceed them and what are the risks that you don't deliver?

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

Well can, we have given long-term guidance relative to productivity at 3% to 4%. The last two years we've generated around about 4% in both years.

It's driven by our holistic program called MVP, which is multifunctional in nature and really breaks down the P&L into components and has teams dedicated on the manufacturing side, in the logistics area, in procurement and R&D where we're looking at formula modifications, where we are looking at optimizing formulas, optimizing vendors. So it's a holistic program with literally hundreds of projects in it that are reviewed at the senior level once a month.

And we feel very confident about the range that we've put forward relative to 2014. And it is something that we have good line of sight on and something that we have articulated. We had nearly 100% of our 2014 productivity estimate locked in coming into the year, which gives us great comfort that we are going to be certainly in that range.

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

Yes, just to add a little more color to it, we managed the pipeline of productivity programs similar to the way that we manage our innovation pipeline. We have them all in different stages, we weight them based on our level of certainty and where they stand in the pipeline and we have a system that tracks them throughout the progression from concept to realization and also tries to model how they're going to reach the P&L.

Because as somebody said earlier on the call, there is a lag between when the projects happen sometimes and when it reaches the P&L. And this enhancement that I am talking about is really something that we perfected over the last couple of years.

And so it is very well embedded in the culture. It's got a great tool and system behind it and this is something that as a senior team we review very frequently to manage that pipeline of productivity ideas. And the reason we do this is because we think it is a real differentiator in performance and it gives us the firepower that we need to invest back in the business.

Ken Zaslow *- BMO Capital Markets - Analyst*

Great. I appreciate it, thank you.

Operator

Matthew Grainger, Morgan Stanley.

Matthew Grainger *- Morgan Stanley - Analyst*

So just two things. Bob, we've heard mixed feedback from your peers about inventory levels at key retailers during the holiday period. Just curious for your thoughts if you are seeing any changes as far as the overlay between shipments and consumption and how it has trended during the first quarter.

Bob Gamgort *- Pinnacle Foods Inc. - CEO*

Yes, we have seen some of that. We've got a couple of big retailers out of the fiscal end in the month of January and we noticed a little bit at the end of December and we noticed some during the month of January.

Our expectation is that gets smoothed out over the first quarter. It is a little frustrating as an organization we take a look at the different sometimes between consumption and shipments but having been in this industry for a long time there is one thing that's true, is that you focus on the consumption because the shipments always catch up to consumption one way or another over time.

And that's really what we're seeing in the month of February and into March. But clearly there was pressures on cash flow and I think it showed up in our end of December and certainly early January shipments.

Matthew Grainger *- Morgan Stanley - Analyst*

Okay. But you would expect that to be normalized in your first-quarter numbers, or should we expect perhaps a bit of an impact that adds to the Easter headwind?

Bob Gamgort *- Pinnacle Foods Inc. - CEO*

Yes, I was going to say that because it gets a little bit confusing is then it gets caught up in the Easter numbers as well. So obviously when we plan our first quarter we build in the Easter impact.

I think our expectation is it will largely catch up by the end of the quarter. I'm talking about some of the inventory reductions, some of that may bleed a little bit into April, it's really hard to call. But we are seeing it start to catch up is the way I would characterize that and we are hopeful that it gets all the way there.

Matthew Grainger *- Morgan Stanley - Analyst*

Sorry, Craig, if I could squeeze in one more. Apologies if I missed this, but can you give us a sense of how you see gross margin progressing year-over-year in 2014?

You've got positive mix, favorable productivity inflation. Just roughly what level of I would assume expansion do you expect, and then if we are thinking about the drivers, how much from a mix contribution is there from Wish-Bone and then specialty business continuing to decline faster?

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

So look, Matt, I won't give you a specific number but it is decomposed the components. We are saying inflation is going to be at 2% and that will clearly be more inflation in the first half, less in the second half.

Productivity will be at 3% to 4%, again more second half rated. So if you pick the midpoint there are you going to get a delta of 3.5% playing 2%, a 1.5% relative to that.

We certainly see continued improvement in mix in 2014 similar to what we drove in 2013 with leadership brand growth being a higher percentage versus foundation. And then you can start to flow through some of the synergy benefit you get from Wish-Bone, which is not substantial in 2014, certainly more so in 2015 and beyond. And then the Wish-Bone brand is the higher gross margin than our average portfolio, so you will see some mix benefit from that too.

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

So I think we've got visibility, obviously, to all of those elements that Craig talked about. The one wildcard in all of this is do we have to spend any of it back in pricing. We were really transparent about that in 2013 and that is the piece that we kind of hold in reserve right now, and we have an assumption that we might have to spend some of that back, but time will tell.

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

And certainly, Matt, I would say you could anticipate that we will see gross margin expansion for each of the quarters in 2014.

Matthew Grainger - ***Morgan Stanley - Analyst***

Okay. Great, thanks everyone.

Operator

That is all the questions that we have at this point. I will turn the conference back over to you, sir.

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

Thanks, everyone. We are around today, so give me a call you have any follow-up questions and we appreciate your support and interest. Have a good day.

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.

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