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PRESENTATION

Operator

Welcome to the Pinnacle Foods Incorporated earnings call for the fourth quarter and full year ended December 28, 2014. 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 Communications, Ms. Maria Sceppaguercio. Ms. Sceppaguercio, please go ahead.

Maria Sceppaguercio - *Pinnacle Foods Inc. - SVP of IR & Communications*

Thank you, Andrew. Good morning, everyone, and thanks for joining us. Here with me to discuss our results for the quarter are Pinnacle CEO, Bob Gamgort, and our CFO, Craig Steeneck.

Earlier this morning we issued our press release for the fourth quarter and full year 2014. The press release is available on our website at pinnaclefoods.com.

Consistent with our reporting in previous quarters, we've provided in our press release, and we'll discuss here this morning, our results on an adjusted pro forma basis. This assumes that our 2013 IPO and subsequently financing occurred on the first day of 2015 -- 2013 and excludes IPO and refinancing expenses and restructuring related and other items, which we collectively refer to as items affecting comparability.

Stock-based compensation expense, as discussed previously, is now included in our results. 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 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 table included in our press release and are discussed in detail in our 10-K, which we will be filing later today.

Also reconciled in our press 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 and are also reconciled to GAAP measures in the tables that accompany the release.

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

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

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

Thanks, Maria, and thanks to everyone for dialing in. After a week of presentations at the CAGNY conference I don't need to tell you that the industry remains challenging. The combination of changing consumer preferences and demographics, reduced promotional effectiveness, shifting retail channels and volatile input costs have created persistent headwinds for manufacturers.

And while we don't profess to be immune from such factors, it is important to emphasize that we've designed a business model to great shareholder value in this environment. A focused portfolio management, an organization wide emphasis on generating productivity and one of the leanest overhead structures run by talented industry veterans has served us well.

This unique combination enabled us to deliver another year of solid performance in 2014 as evidenced by the balanced measures of market share growth, gross margin expansion, double-digit EPS growth and outstanding free cash flow generation.

Also notable was our organization's ability to remain focused on delivering operational performance in an eventful year for Pinnacle, one that was marked by a terminated merger agreement, the transition to a non-controlled Company, and two modest but highly strategic acquisitions, specifically the Gardein plant-based protein business and the Centralia, Illinois manufacturing site for Duncan Hines.

The focus of today's call is to help you understand the drivers of our Q4 and full-year 2014 performance. At the end of our 2014 remarks we'll provide our outlook for 2015, underscoring our continued confidence in our business model and team. We look forward to the opportunity to talk you through the programs and initiatives behind our outlook at our CAGNY luncheon in March.

With that I will take you through the specifics behind the headlines of our 2014 full-year performance and Craig will take you through the details of the fourth quarter.

We grew our North American retail sales by 7%, largely driven by the Wish-Bone acquisition and higher volume mix on the base business, partially offset by lower net price. We again outpaced the performance of our categories, growing our composite share for the year, something we have done in four of the last five years.

We held or grew market share in nine of our 13 categories in 2014 with six of our seven leadership brands growing or holding share for the year. We expanded our gross margin by 50 basis points for the year. This performance was driven by the ongoing success of our productivity program and favorable product mix, which collectively offset higher than expected inflation and lower net price realization.

Now I have mentioned negative net pricing a couple of times already, which certainly was a persistent industry challenge in 2014. What is worth noting is our net pricing improved in the second half of 2014 and was positive in the fourth quarter. It is also important to point out that our price realization surpassed that of our composite category for the full year.

Our operating expenses for the year on an adjusted basis declined 1% versus year ago despite higher investment in consumer marketing. The decrease reflected the benefit in 2014 of modifying our vacation program for salaried employees to reflect current market practices. Craig will provide more specifics shortly.

Interest expense for the year totaled $96 million, in line with our expectations, while our adjusted tax rate came in at 37.9%. All of these factors combined resulted in adjusted diluted EPS of $1.74 for the year, a 14% increase versus $1.52 in 2013.

Finally, our cash flow generation remained very strong in 2014 with net cash provided by operating activities totaling about $550 million including the net cash benefit of $153 million from the merger termination fee earlier in the year.

We used our cash to make the two acquisitions I mentioned earlier, pay down $220 million of debt, pay out $102 million in dividend and buy back $32 million worth of shares, the latter being a one-time event associated with the accelerated vesting of equity. We ended the year with net leverage of about 4.2X, further enhancing our capacity for M&A.

Turning to our segments, our Birds Eye Frozen segment registered growth in net sales and market share for the year with a benefit of new products and first half trade investments driving the growth. Specifically net sales growth of 1.7% for the year was fueled by a 2.3% increase in volume mix and 0.6% from Gardein, partially offset by lower net price realization of 1.2%.

The frozen leadership brands drove the growth in net sales fueled by Birds Eye Voila!, which registered high-single-digit net sales growth. This momentum reflected the benefit of increased distribution driven by the first half trade investments as well as introductions of new flavor varieties and the expansion of the Voila! family size line.

Birds Eye vegetables also registered net sales, retail consumption and market share growth for the year driven by new varieties of steam fresh and chef's favorites and expanded distribution for recipe ready.

We also experienced continued strong growth of Hungry-Man. As we have discussed with you previously, Hungry-Man is a uniquely positioned offering in the entree category and our success in 2014 reflects the expansion of our higher-priced Selects line.

In terms of market share, total frozen share advanced 0.2 percentage points for the year with our consumption up approximately 1% and a category composite that was down. Importantly, all of our frozen leadership brands registered share growth in 2014.

With all the industry talk about reshaping portfolios to meet consumers' needs for healthier foods it is worth noting that despite the constantly changing definition of what constitutes a healthy diet, experts have agreed for years on the merits of a diet rich in fruits and vegetables.

As recently as last week an advisory committee to the USDA issued dietary guidelines that emphasize plant-based diets as not only good for improving health outcomes but also good for environmental sustainability. With that as context Birds Eye is our largest single brand, representing over $1 billion in retail sales.

We are very excited about are plans for the business in 2015 including both an ambitious innovation agenda and our recently launched television advertising. The new campaign, which introduces two spokes birds for the Birds Eye franchise includes dedicated advertising for the first time behind Birds Eye Voila!.

We are also excited about our Q4 acquisition of Gardein, an innovator in the rapidly growing plant-based protein segment. We believe that Gardein builds upon our leadership in frozen vegetables and will serve as a key enabler supporting Birds Eye's mission to help Americans eat healthier foods.

Unlike previous acquisitions where Synergy capture was a significant focus, the acquisition of Gardein is primarily focused on leveraging the capabilities of the two organizations to accelerate growth through expanded distribution, marketing and innovation.

2014 adjusted EBIT for the frozen segment was down slightly for the year, largely reflecting the first half investments we made at retail, which were successful in expanding our distribution and supporting our market share growth. Also impacting EBIT were significantly higher logistics costs and packaging investments offset by stronger productivity and lower SG&A.

Turning to our Duncan Hines Grocery segment, net sales for Duncan Hines Grocery advanced 12.6% for the year with Wish-Bone contributing 14.3%, partially offset by lower net realized price of 1.2% and unfavorable FX of 0.5%.

Base business net sales growth for the year was registered by Vlasic, Armour and Nalley's, while net sales declined for syrups and Duncan Hines despite significant market share growth on the latter. Vlasic benefited from the introduction of Vlasic Bold & Spicy pickles which are proving to be incremental to the category and the brand while Armour and our chili products continue to benefit from the protein trend.

In the baking category Duncan Hines market share expanded 1.5 percentage points for the year driven by new products in our signature, decadent and limited edition segments. The category proved to be highly promotional particularly in the fourth quarter. While Duncan Hines had both positive consumption and share growth the overall category performed poorly as promotions traded down consumers.

In terms of market share, total grocery segment share advanced 0.2 percentage points for the year with our consumption essentially flat in a category composite that was down about 1%. All of our grocery leadership brands except Wish-Bone held or gained share in 2014.

With regard to Wish-Bone, as previously discussed, we elected not to match the deep discounting the brand had in place in 2013 prior to our acquisition. The good news is we gained market share in the food channel in the back half of the year and drove an improvement in promotional efficiency in 2014 compared to the previous year.

It is also worth noting, given that most of you use Nielsen data, that Wish-Bone's performance was understated in Nielsen in January as their system did not recognize the change in UPC Company code from Unilever to Pinnacle in time to accurately capture much of Wish-Bone's performance.

For example, IRI indicated 0.2 points of share growth for Wish-Bone in January as compared to Nielsen which erroneously indicated double-digit consumption declines. We understand that this should be corrected going forward.

The supply chain integration of Wish-Bone has gone exceptionally well and the business met our expectations for 2014. We are on track to begin start up of in-house production in Q2 2015 and Unilever will continue to co-manufacture for us while we go through our startup phase.

We continue to develop our innovation plans for the brand and expect this new in-house manufacturing capability to be an enabler to future innovation.

Adjusted EBIT for the grocery segment was up 28%, largely reflecting the benefit of Wish-Bone, as well as productivity savings and reduced SG&A, partially offset by lower net price realization.

Our Specialty Food segment, which includes our private label foodservice of snack businesses, posted a 5% decline in sales for the year, primarily reflecting expected lower sales of private label canned meat. Adjusted EBIT advanced approximately 10% for the year due to productivity and the benefit of Wish-Bone foodservice.

With that I will hand it over to Craig who will take you through the financial details of the quarter.

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

Thanks, Bob, and good morning, everyone. I will start with our fourth-quarter results, then touch on some details for the full year and I will finish up with a discussion of our outlook for 2015.

Starting with sales -- our consolidated net sales decreased 0.6% in the fourth quarter to [$705 million] (corrected by company after the call), reflecting higher net sales at North American Retail, more than offset by an expected decline at our Specialty Foods segment.

North American Retail net sales advanced approximately 1% reflecting a 1.1% benefit from Gardein and higher net price realization of 0.2%, partially offset by lower volume mix of 0.2% and unfavorable foreign currency translation of 0.2%.

For our Birds Eye Frozen segment Q4 net sales increased approximately 5% driven by a 2.3% benefit from Gardein, which we owned for the last six weeks of 2014, as well as higher volume mix of 2% and higher net price realization of 0.6%.

For the base business growth in our Birds Eye Frozen vegetable and Voila! skillet meal businesses, as well as Hungry-Man, was partially offset by lower sales of Mrs. Paul's and Van de Kamp seafood.

For our Duncan Hines Grocery segment Q4 net sales declined 3% due to lower volume mix of 2.1%, lower net price realization of 0.4%, and unfavorable currency translation of 0.5%. Strong growth in Vlasic pickles was more than offset by lower sales of Duncan Hines Baking Products due to category softness as the brand gained share for both the quarter and the full year.

Finally, our Specialty Foods segment net sales decreased approximately 10% in the quarter reflecting lower volume mix of 10.9% partially offset by higher net price realization of 0.6%. This performance was essentially in line with our expectations and largely reflected the timing of private label canned meat sales versus year ago. Despite the decline in sales, adjusted Specialty EBIT increased approximately 2% in the quarter and approximately 10% for the full year.

Now turning to gross profit -- on an adjusted basis our gross profit increased 1.6% to $208 million in the quarter. And as a percentage of net sales advanced approximately 60 basis points to 29.4%. This performance reflected the benefits of strong productivity, slightly higher net price realization and a vacation policy change that shifted earning vacation benefits to a pro rata basis to more closely align with current market practices.

This policy change benefited the P&L by $6.5 million, $2.7 million of which impacted gross profit and $3.8 million impacting SG&A. Partially offsetting these benefits was higher input cost inflation which totaled approximately 2.5% in the quarter, bringing inflation for the full year to 2.7%.

You will recall that at the beginning of the year our expectation for inflation was about 2% and some industry forecasts were actually calling for a deflationary input cost environment. Our increase in inflation versus our going in expectation was primarily driven by higher logistics costs due to constrained trucking and rail capacity and the increased cost of proteins and packaging.

In total, our higher than anticipated inflation for the year cost us about $15 million that we had to cover in other areas of our P&L. One of the ways we offset this increase in inflation was through our productivity program. During the fourth quarter productivity was very strong at 4.3% of cost of products sold, bringing productivity for the year to 3.7%, representing the high end of our original guidance range.

Excluding items affecting comparability EBIT increased approximately 8% to $142.5 million in the quarter, largely reflecting the growth in adjusted gross profit as well as lower selling, general and administrative expenses.

Interest expense for the quarter, excluding items affecting comparability, declined 8% to $22.4 million, largely driven by the previously disclosed $200 million debt reduction in the third quarter and the related 25 basis point interest rate step down on our term loans.

The effective tax rate for the quarter was 37.4% compared to 39% in the prior year period, reflecting changes in federal legislation and a reduction in state taxes. Adjusted net earnings increased 14% to $75.2 million or 64% per diluted share in the quarter compared to $66 million or $0.57 per diluted share in the fourth quarter of 2013.

Now turning to cash flow. Net cash provided by operating activities advanced in the fourth quarter to $138 million compared to $121 million in the year ago quarter. For the full year net cash provided by operating activities advanced significantly to $551 million compared to $262 million in 2013.

This strong performance was driven by growth in net earnings and improvement and working capital, as well as the cash benefit of the $153 million termination fee. Excluding the termination net cash from operating activities totaled approximately $400 million in 2014.

Capital expenditures in the fourth quarter totaled $20 million bringing total CapEx for the year to $103 million. This is approximately $15 million below our forecast due entirely to timing as we expect the cash outflow associated with these projects to hit in the first half of 2015. As a result CapEx in 2015 is expected to be in the range of $100 million to $110 million.

Turning to liquidity, at year end our total debt was $2.3 billion which includes $1.9 billion in term loans and $350 million in 4 7/8 senior notes. Cash at the end of the year totaled $38 million and we had no revolver borrowings resulting in a net leverage ratio of 4.23 times.

During the year, as Bob mentioned earlier, we deployed our cash to make two strategic acquisitions, pay down $220 million of debt, pay out $102 million in dividends, and buyback $32 million of our stock. This share repurchase is related to the December secondary offering of 23 million shares.

The offering resulted in Blackstone's ownership in Pinnacle declining to a threshold that triggered the immediate vesting of approximately 1.3 million shares associated with equity granted prior to the IPO. This accelerated vesting also resulted in a one-time non-cash equity compensation charge of $24 million in the quarter which we have treated as an item affecting comparability.

To offset the impact of this vesting, and much of the share creep in 2015 associated with our ongoing long-term incentive programs, Pinnacle repurchased 1 million shares of our common stock from Blackstone. Following both the secondary and our repurchase of shares, Blackstone's ownership in Pinnacle now stands at 16%.

Now turning to our outlook for 2015. Excluding items affecting comparability, we expect diluted EPS for 2015 to be in the range of $1.86 to $1.91, representing 7% to 10% growth. This range is above our long-term algorithm reflecting the continued benefit of the Wish-Bone acquisition.

Other 2015 assumptions include, input cost inflation is estimated at 3% to 3.5%, driven by proteins, some purchase vegetables and logistics. Inflation in the first quarter is estimated to be the highest of the year.

Productivity for the year is estimated at 3% to 4% of cost of products sold. Consistent with recent years, productivity savings are expected to be greater in the second half of the year versus the first half.

Interest expense is estimated at $90 million, largely reflecting the benefits of our debt reduction in 2014 and the related interest rate step down. The effective tax rate is estimated at 38%, the full-year weighted average diluted share count is estimated to be approximately 117 million shares.

And finally there are two non-cash items that will impact our results in 2015. The first is depreciation and amortization, which is expected to increase by $10 million to $90 million, largely due to depreciation associated with the new Wish-Bone capital, the inclusion of the Gardein acquisition and IT investments. The second is non-cash stock-based compensation expense which is expected to increase by $3 million to $5 million as the impact of our long-term incentive plan ramps up for the second of three years.

With that let's open the line for questions. Andrew?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Andrew Lazar, Barclays.

Andrew Lazar - *Barclays Capital - Analyst*

Two questions from me. I guess first, Bob, as you hit on a little bit in the fourth quarter, I know on the last quarter conference call promotions in baking mixes and frozen was kind of one of the wildcards that you pointed out for the fourth quarter and kind of going forward.

You talked a little bit about what transpired in baking mixes during the quarter, but perhaps you can give a little bit more color on each of those -- how the promotional environment sort of panned out versus what your at least ongoing assumptions for the quarter and what that means as we move into 2015. And then I have just got a follow-up.

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

Sure thing. Specifically on baking, I will start there. A very interesting quarter in that for the category the average price was down 1.6% and the consumption for the entire category was negative 8%. And what we see in that category during the fourth quarter is it is a destination item, it is not an impulse item.

People are going to bake during the holidays and if price goes down too much in the category you are just trading people down from a price standpoint on the units they were going to purchase anyway.

What is really interesting is our ability to completely buck that trend. So while the category average price was down 1.6%, we were actually up 2.1%. So a huge reversal in terms of our price realization versus the category. And despite that we gained 2.1 share points.

And that is really a theme that we talked about on previous calls which is our opportunity to remain very competitive on the classic line, but offer consumers more benefits and trade them up on the signature and the decadent lines.

And the decadent line, for example, which is almost now a four share of the category, we saw consumption growth of 6.2% for the quarter and about 6% for the year. So that is the strategy that we keep implementing in all of our categories.

Frozen vegetables, just a touch on that one, was a similar story with a slightly different outcome. The category in pricing was essentially flat, we were up about 1.5% in pricing. We had some small share loss in the fourth quarter, we gained share nicely for the year.

The difference between baking and frozen vegetables is as a lead item a number of our retailers decided to go with private label to go with a very, very hot price point, one that we weren't willing to match. And therefore you see the price of the category tempered and you also see some share loss.

But again, I think that we fared incredibly well in both of the key categories in what proved to be a very intense promotional environment in the fourth quarter. And what I think is most encouraging is because we are offering higher value items in terms of benefits, we're able to actually get price realization in that environment.

Andrew Lazar - *Barclays Capital - Analyst*

Got it, that is helpful. And then I guess more importantly as you think out to 2015, in thinking about your overall top-line sort of views, how do you see it playing out with respect to your sort of respective category growth, ability to kind of hold or gain share again? And then how do you think sort of the growth breaks out even directionally between kind of price versus volume as we think about sort of modeling out 2015?

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

Yes, I think when I take a look at the trends in total food industry as well as the composite for the categories in which we compete, despite a lot of hope that we all have that the change in gas pricing and the anniversarying of the [SNAP] changes is going to show up in trend, I don't see it in the numbers yet.

So we are all hopeful that it happens, but we won't believe it until we actually see it in the numbers. I think we will see a slight uptick in category in industry growth in 2015 because you are going to see a continuation of the trend that began in the fourth quarter with some -- potentially some additional very modest net price realization.

Even though inflation has been low, and a lot of the tradable commodities have actually been in deflation, the industry hasn't recovered price over the last two to three years. And so, you are just beginning to see some need to recover some of that price, which I think will have some negative impact on volume. But when you take a look at the revenue growth I think it is going to be equal to or slightly up from what we have seen in 2014.

The one thing I would point out is all of our 2015 -- our outlook and our plan does not assume a rebound in our categories in 2015. And that goes all the way back to the IPO in 2013 where we have assumed that the challenging environment continues.

Andrew Lazar - *Barclays Capital - Analyst*

Great. Very helpful, thank you.

Operator

Bryan Spillane, Bank of America.

Bryan Spillane - *BofA Merrill Lynch - Analyst*

Bob, I wanted to follow-up I guess on that last line of questioning from Andrew with regard to the industry growth. And I guess if you think about there really hasn't been much improvement in growth rates and that is even with now maybe a little bit more support from -- or the consumer maybe having a little bit more money in their wallet.

Can you just -- has your view changed in terms of what the drivers are in terms of what's subduing industry growth? It seems like it is less consumer and more preference. But I just would like to get your thoughts on that. Just has your viewpoint changed in terms of what is driving it?

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

Yes, I think it is more of the same that's impacted the industry over the past five years which we have talked about is a number -- a combination of a number of factors that range from financial pressure on the consumer and we've talked about all the drivers behind that combined with changing preferences -- not only in terms of categories but in terms of where they shop. I think that that continues.

There has been a somewhat of a lessening of the pressure on the average American consumer because of gas prices. And it is funny because if look across multiple categories I think 10 different categories have spoken for that increase in funds from the consumers.

So it is going to go somewhere but it is hard to track right now where it is going. It certainly isn't showing up in food in the very, very short-term. So I think it is more of the same. And the implications for us is we've got to keep running the business model that we put in place in 2013 which is a real focus on expanding margins versus trying to drive the top line.

The margin expansion comes not only from focus on productivity and running low overheads, but also by making sure that our margins on our innovation are accretive, easier for us to do because we start with a lower gross margin than most of our peers. And then all of our innovation is really very much focused on getting into new categories and new channels.

I think lots of examples on Birds Eye and we will take you guys through our plans for Birds Eye in 2015 and you see how that it was coming to life. But also our acquisition of Gardein not only expands in health and wellness but for the very first time gets us into some of these natural and organic channels that we have had zero presence.

And then on the other end of the continuum, but again new channels, we had some big wins in dollar stores in 2014. So just like there is a list of probably five or six major factors that are causing the weakness in the center of the store, there is no one a single answer to get out of it. It is a combination of all of the things that I just talked about.

The good news is it is working for us, the business model we put in place during the IPO continues to serve us well and I know it will do the same in 2015.

Bryan Spillane - *BofA Merrill Lynch - Analyst*

Does -- has anything changed in terms of sort of the way you are looking at potential acquisitions and the types of categories, the types of products that you might want to focus M&A on?

I mean it just seems like given the overall slowdown in the industry there is a lot of companies in the industry really rethinking their portfolios or thinking differently about their portfolios, which probably implies there will be some brands that come up for sale.

And just -- is there any thought or anything that has changed in terms of maybe preferences in terms of categories or types of products, form, shelf stable versus frozen versus chilled, just anything that has changed there?

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

Sure. I think -- first of all, I think your point is right which is that realization that the challenges that we face right now are going to continue -- and I think that was pretty clear in the conclusions from the CAGNY conference last week -- will, in my opinion, lead to more portfolio reshuffling. And I think it has taken a while to get us there, you see some evidence of it in the past couple years, but I think it is finally getting there.

Again, when we talked to you all during the IPO that was our hypothesis is that this would continue and would force companies to realign their portfolios more aggressively. It has taken a bit longer but it is beginning to happen right now. And you are seeing some differences in the way people think about acquisitions, getting into new categories, getting into new channels.

I would tell you that in terms of what our preference is it hasn't changed one bit. And we think that by staying true to who we are in reinvigorating iconic brands and building off of the platforms that we have already, we can deliver the highest value to our shareholders. Having said that, we also have plans B and C that are slightly more broad than the narrow definition we gave before, but we've got a lot of opportunity to chase the high-value acquisitions first.

And the only departure worth noting, because we did it, was Gardein. And I think as we talked to you about it during the time of that acquisition, that was somewhat out of our normal playbook in that it wasn't an iconic brand that needed reinvigoration that we could drive a lot of cost out of. But the reason we jumped on that is because it accelerated our innovation pipeline for Birds Eye.

We were working on those very same products and realized that by making that acquisition we could really cut out two or three years of internal product development and activate it faster by the acquisition. So it hasn't really changed our outlook, but we will be pragmatic about it if there is something that is close into what we are doing that is available. We won't wait for something that is perfect.

Bryan Spillane - *BofA Merrill Lynch - Analyst*

Thank you.

Operator

Eric Katzman, Deutsche Bank.

Eric Katzman - *Deutsche Bank - Analyst*

I guess my question revolves around competition in 2015 and your assumptions. Obviously, ConAgra in frozen is in the midst of a CEO change and that inherently entails, I suppose, the brand managers kind of they are pausing and trying to see kind of what the new direction might be. And then at General Mills you have got two restructurings occurring with seemingly less -- somewhat less emphasis on their baked goods line, at least as far as their CAGNY presentation was concerned.

So I'm just kind of wondering, Bob, how you and your team see -- like do you see an opportunity this year because of those changes to outperform in frozen and baked goods or cake mix? And is it a -- is that kind of built into your assumptions?

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

Yes. I mean our assumption over the long haul is to grow in line with our categories which obviously means holding share. We've performed better than that in recent years and that has been great because our categories have underperformed their historical averages. So that has been an important offset to the weakness in our categories.

We make an assumption that our competitors are going to be aggressive and they will not sit around and willingly lose share. So that keeps us on our game very aggressively. If you go back and you take a look at why we are winning as defined by market share and, as I pointed out to you with the pricing data, it's not because we are dropping price.

The reason we are winning is because we put in place a whole range of innovation that is not only good for us from a market share standpoint, but is good for our retailers because it is bringing new consumers into the category or it is trading them up to higher benefit.

That has allowed us to earn more distribution. And in some cases when the competition has been very weak the retailers are very open with expanded distribution with players that are winning. That combination is why we're been able to gain market share and that is what we expect to do going forward.

As we always say pricing is the wildcard, so if somebody wants to come in and just drop price in the short-term we won't just sit around and let that happen. But it is not the core part of our strategy, it is really an innovation in distribution based strategy. And I think that should enable us to at least deliver our long-term goal which is holding share. But I think ideally we would be continuing to gain share as we have done in the last four out of the last five years.

Eric Katzman - *Deutsche Bank - Analyst*

Okay. And then maybe this is a better question for the monthly CAGNY meeting, but I will take a stab at it. And if you want to pass that is fine.

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

Sure, okay.

Eric Katzman - *Deutsche Bank - Analyst*

And maybe it is more a question for Craig and -- I don't know if Tony is in the room. But we heard a lot of comments about [ZBB] down at CAGNY, Campbell's is adopting it, obviously Heinz is doing it, [Vondalee's] has been trying it for a year. Like how would you compare your kind of productivity program to ZBB? Is it more or less the same thing or do you kind of take a different approach from that effort?

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

Sure. Let me -- when I think about productivity, and then I'm going to turn it over to Craig, I think about two components. I think about our MVP program, maximizing value through productivity, which is really across the entire Company, but the majority of the savings come through the supply chain.

Whether it is the way that we acquire raw materials, the way that we are able to drive efficiency in the plants and improve our logistics efficiency, that is a tremendous source of savings that we target a 3% to 4% cost of goods every year, we have been delivering at the high end of that.

ZBB, in my world and I have lived through some of those ZBB regimes in the past, typically are associated with overhead costs and fixed costs. And that is something that we've committed to about holding our overhead at about 9% of sales over the long-term. And Craig could talk a lot about how we make that happen. We don't -- we almost don't need to go to zero based budgeting because of the way that we think about that 9%, we have a very hard line around that.

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

Yes, and, Eric, I wouldn't say it is materially different. I mean we do, as Bob said, we're highly focused on productivity and supply-chain, we look at SG&A. We are now starting to migrate the MVP program to start to look at SG&A components in there.

We do a detailed budget every year by department kind of on a bottoms up basis. So we are highly focused on ensuring that the 9% SG&A doesn't go higher. And through a variety of means, but ZBB is kind of an ingrained process that we have always used here.

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

Yes, I think the comment is it is part of our culture right now which is I think it dates back to the fact that certainly the senior leaders, but it goes deeper in our organization, feel like they own the Company because in the past they absolutely did.

And today even through the share program that converted over from private equity, we are owners of this company. I think people really operated all along from the very beginning with that mindset in looking at their overhead budgets. And that is part of the culture more than anything else, it's not a program, it is the way that we run the business.

Eric Katzman - *Deutsche Bank - Analyst*

Okay, I will pass it on. Thank you.

Operator

Jason English, Goldman Sachs.

Jason English - *Goldman Sachs - Analyst*

So lot's on competitive activity and sort of the top-line outlook. I guess I'd like to switch a little bit more to cost. Your cost outlook, 3%, 3.5% inflation is -- seems higher than I think most of us would expect.

I think a lot of us are looking at protein, seeing some easing on a go-forward, looking at lower oil prices and therefore lower resin prices translating to the easy packaging cost. And freight costs -- sort of the higher wage expenses being mitigated by lower fuel.

So, I guess the question is what are we missing when we look at these? What are the drivers and sort of what is that 3% to 3.5% outlook predicated on?

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

Sure, Jason, I have the same thought process going into the planning process this year, but Craig will take you through exactly what is driving that.

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

So, Jason, as we have talked about before, our all-in cost of goods is about $1.8 billion. And it's broken down with conversion costs and our logistics costs being about $300 million apiece and the residual $1.2 million in the commodity input cost basket.

And despite lower fuel prices the logistics market is very tight, freight remains an issue due to capacity and rail car and truck availability being shifted to oil and coal. In the fourth quarter of 2014 we saw the highest level of logistics cost we saw all year with approximately about a 5% year-on-year increase. So although the port strike out on the West Coast has just been resolved, we don't see much relief in that logistics area for most of 2015.

The conversion cost basket, again, around $300 million. We see roundabout 3% inflation in there, a lot of it being wage and benefit based, so that is fairly consistent. And our market basket, our input basket is very diversified and there are certain portions of it like tradable grains that are showing deflation, but protein costs, although still easing, are significantly higher.

Our packaging cost are not going to be much lower than 2% to 3% for the year. And as you go through the rest of our portfolio we are seeing pockets where inflation is going to get into that range. And although we feel comfortable that our range is pretty tight and we are covered six to nine months out, we don't see much less than 3% inflation for the year.

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

I think the areas, the components of input costs that are easiest to track, the tradable commodities with the exception of protein are where we are seeing deflation and obviously oil pricing gets a lot of headlines on here.

But I think we were equally surprised when we started getting into the planning to see that there were so many other components that are less easy to track that actually are driving significantly higher inflation to get us to that average.

It is also important to talk about how it flows through the P&L. Because obviously there are spot prices and then there is how it actually flows through the P&L given our coverage and the way that it flows through inventory which lags some of the effects that we are going to see.

But we are pretty confident that the number we call for this year is the right number. And I will also point out that the number that we went in with last year was actually too low and we came in significantly higher, that we had it covered throughout the year.

Jason English - *Goldman Sachs - Analyst*

Got it, thank you, that is helpful. I will pass it on.

Operator

Robert Moskow, Credit Suisse.

Robert Moskow - *Credit Suisse - Analyst*

I guess I have three observations, so bear with me. The first is that it doesn't look like Nielsen is going to be getting your data contract in 2015 (laughter). Second is that vegetables must have -- Birds Eye must have beaten plan for the year. The sales are really strong and it looks like there is some good consumer demand tailwind in terms of people looking for more health and wellness.

And then the third though that was I think a little disappointing is that the vacation policy change benefit was $6.3 million in the quarter. And so, I guess my question is, would you have missed your estimates in fourth quarter excluding that benefit? Why did you decide to absorb it instead of stripping it out?

And then maybe you could talk a little bit more about Birds Eye. And do you think you can continue to gain share in vegetables? Do think the category can continue to grow because of that tailwind of health and wellness? Is this going to beat the rest of your portfolio because of those benefits?

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

Sure. Let me start with the vacation piece first and then I will pause to make sure you understand it and then I will come back on the veg piece. The vacation piece is obviously something that we have visibility to earlier in the year than the fourth quarter.

And it's a one-time opportunity, obviously that is why we made it crystal clear in all the releases and our communication here that it is a one-time opportunity, we are not pretending it to be anything but that. But in a really challenging year like 2014 it is nice to have an opportunity in your back pocket to invest back in the business.

And so, we were able to take that little more than $6 million and invest it in some structural packaging changes which we discuss in our 10-K behind the Birds Eye business called Shopper Ready Packaging as well as in our Aunt Jemima business we moved over to Flexible Packaging. We were also able to use it to tighten up some of our promotional spending where we needed to in the fourth quarter.

I mean I talked about what some of the competitive price environment was in both veg and baking. We expected actually that we would get higher price realization because of the success of decadent as well as our higher item vegetables. But we had to get a bit more aggressive on some of the classic lines given what was going on with competition.

So it is essentially where we invested that money. And again, it's -- we are always looking for opportunities to build up a reserve, as we have talked in the past, to be able to invest in our business throughout the year and this was one of those opportunities.

Robert Moskow - *Credit Suisse - Analyst*

Okay.

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

I want to make sure that that is clear to you.

Robert Moskow - *Credit Suisse - Analyst*

Yes, I think so. I will follow up later on it.

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

Okay.

Robert Moskow - *Credit Suisse - Analyst*

And as far as like the outlook for Birds Eye, is this going to grow faster than the rest of your portfolio, all that kind of thinking?

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

Yes, and that is our expectation and it is a combination of a very on trend category for the reason we talked about before, a real solid innovation pipeline that goes well be on flavors into new benefits and new formats. And we're going to be able to show that to you next month; it is a little early right now for us to talk about it.

Dialing up the advertising, which we now have a new campaign which we haven't seen on TV, we will show it to you as well. And this is -- we talk about leadership categories and foundation brands, this is really a leadership business that is at the top of the list in terms of our ability to innovate behind it. And the acquisition of Gardein, although it is very, very early, is another enabler to keep driving Birds Eye.

So if you recall about a year ago it was at the CAGNY luncheon that we said we are re-looking at Birds Eye from being a frozen vegetable business to really being a health and wellness brand, it about over $1 billion in sales.

The success in 2014 is at the very beginning of that -- of those initiatives that we said we were going to put in place when we talked a year ago. And I think when you see the plans that we have in place for 2015 and beyond you will see that we are very serious about this.

Robert Moskow - *Credit Suisse - Analyst*

Bob, can you remind us what does -- what kind of capabilities does Gardein have that you like and how can it help you with Birds Eye?

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

Yes. Gardein if you take a look at the plant-based protein segment, its potential to do, for example, what plant-based milks have done in the dairy segment is significant. It is a very small percentage of meat consumption. When you take a look at the plant-based milk area it is about 10% of sales. So there is tremendous upside in the category.

The issue with the category has been taste for the most part. And just like any of these other technologies, over time you get significantly better with taste.

We sampled all the competitive products and a bunch of startup businesses before we made the acquisition of Gardein. They have the capability to deliver on multiple formats, chicken, beef, pork, even seafood now, in a plant-based format that the taste and the texture are superior. And that is what really attracted us to that business and we see that that is very, very expandable not only under the Gardein name but also under the Birds Eye name as well.

We are in the position right now of really of continuing to support the organic growth of the Gardein business, which if you take a look at the latest IRI numbers, it is huge growth and gaining share as well as 40%-ish plus consumption growth that is the kind of level we are talking about here.

We are going to need to expand capacity on that business to fuel not only the organic growth of Gardein but to be able to then take that technology and apply it to some ideas that we have on Birds Eye and that is before we invest in any advertising. So we see tremendous upside in that business.

And I think it has finally gotten to the tipping point where that will become as mainstream as Silk or Almond Milk is in the dairy aisle. I think that this is now cracking the code for consumers on meatless alternatives. And as we said before, it is not a health benefit, it's a good sustainability story and we believe over time will actually be a value to consumers as the price of protein continues to go up.

All this stuff is stuff that we're going to share with you -- or begin to share with you in the next month over at the CAGNY luncheon and then over time we will be able to show you even more of our plan.

Robert Moskow - *Credit Suisse - Analyst*

Very good. Thank you very much.

Operator

Farha Aslam, Stephens.

Connor Hustava - *Stephens Inc. - Analyst*

Yes, hi, this is actually Connor Hustava on for Farha today. Quick question, can you remind us of your exposure to Canada particularly with regard to -- or I guess following the Gardein acquisition and maybe give us a sense for what kind of currency headwinds you are assuming in your 2015 guidance?

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

Sure.

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

Yes, the Pinnacle Canadian business only makes up about 3% of total Pinnacle. So although the Canadian dollar has weakened substantially over the last several years, almost 20%, it has a fairly inconsequential effect on the Pinnacle business.

The Gardein acquisition, although the headquartered in Canada, sells 95% of its products through the US. So we have action created a bit of a natural hedge by the Gardein business selling in US dollars and having to pay expenses and plant costs in Canadian dollars.

So our plan does assume a little bit more deterioration in the Canadian dollar in 2015 and we've certainly seen it in the early part of this year. But it has an inconsequential affect on our overall EBITDA.

Connor Hustava - *Stephens Inc. - Analyst*

Okay, that is helpful. And then for my follow-up, really a two-part question on M&A. First, can you remind us kind of where you are comfortable taking leverage on this business today? And then second, can you maybe give us a sense for what the M&A environment looks like from a kind of frequency of deals that are crossing your desk standpoint and also an evaluation standpoint?

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

Sure. So first of all in terms of -- we finished the year with leverage below 4.25, and as we've said before, we would feel comfortable going up to 5.5 times leverage, that is an area that we are comfortable with. That would allow us to be able to do an acquisition that would be between $1.5 billion and $2 billion, say three times the size of Wish-Bone.

I don't know if you picked up recently but we did get upgraded by both S&P and Moody's and an acquisition of that size would keep us in the range of the upgrade that we have just done.

In terms in the environment, Bob touched on it a bit before. There is certainly a bit more activity over the last couple of months in terms of looking at things. I don't think multiples have change substantially from where they were before, but there is certainly a lot more activity in that kind of mid to small brands.

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

And I think just to build on what Craig said, the price range of $1.5 billion to $2 billion is for a straight up cash and debt acquisition. As we've talked about before, we believe that we are the right size to look at some other transactions that are more tax-advantaged and also would allow us to go bigger than that.

And I think that when we think about multiples, and they are high, as we always talk about the only metric we care about are after-tax after synergy multiples.

And that is why, back to the earlier question, we like to stick to categories and platforms that we are already in because it puts us in a position of being able to pay a very competitive multiple yet realize very strong synergies which enable us to look at an after-tax after synergy multiple that is very, very reasonable. And that is the space that we are in.

So lots of conversations, obviously the negotiation is always around timing, price and some of the other factors. But as I think we referenced or somebody referenced earlier, the environment is such where it is forcing a lot of our peers to take a look at portfolio restructuring and we hope to benefit from that.

Connor Hustava - *Stephens Inc. - Analyst*

Great, thanks.

Operator

Matthew Grainger, Morgan Stanley.

Matthew Grainger - *Morgan Stanley - Analyst*

Bob, you talked a lot about the technology at Gardein, which sounds very exciting. And the brand right now has an existing presence in natural organic channels, you are sort of hinting at expanding it across a broader distribution footprint.

But just with the dichotomy between the brand equity of what you bought and the potential for the technology, how are you assessing the opportunity to expand the Gardein brand specifically as opposed to -- as you are looking at mass channels, just taking that and applying it more directly to Birds Eye? Should we be thinking more the latter is the direction you are leaning?

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

No I think both brands can really coexist and it is something that we have learned. It can appeal to slightly different consumers and the potential to give us some channel coverage that we don't currently have. But we think there are plenty of room for both brands -- different benefits, different targets, ultimately different price points as well.

The one thing to point out with Gardein is it really established itself in the natural and organic channels, but it has been expanding in mainstream channels very successfully. In fact, if you take a look at a Publix store in the southeast or if you look at Target, they have some of the highest levels of distribution in terms of variety of Gardein of any retailer in the country.

And so this is something that was in place and building when we made the acquisition. Given that we have strength in traditional channels and the Gardein organization has strength in natural and organic, that is the point about being able to build off of the best of both organizations to expand the coverage -- distribution coverage of both brands.

The other piece that we are able to do is fuel the expansion through manufacturing capacity expansion, both in terms of investing in the plant in Vancouver to expand its output, as well as we are in process of looking for another manufacturing site to fuel the kind of growth that we're talking about.

So I think going forward you will see both brands with product in this format and we will talk about how we separate price points, channels and benefits. But it is exciting territory and there is more than enough room than one brand would cover.

Matthew Grainger - *Morgan Stanley - Analyst*

Okay, thanks, Bob, that is helpful. Just a quick follow up. I know you have been trying very hard not to talk about the innovation pipeline today and save it for next month. But just as we are looking out over the next couple of quarters can you just remind us what some of the key elements of your existing innovation plan are just across the existing Birds Eye and grocery business?

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

Yes. If you go back -- let me just talk about 2014 for a second. What innovation drove some of the success in 2014 and we have great success with Voila! and one of the surprising successes, and when I say surprising, in terms of its incrementality was Voila! family size.

I am typically used to seeing categories in which when you go from one size to another there is a lot of cannibalization. We have seen of that when we have gone from regular Voila! for two to family size Voila! we've seen almost all of that volume being incremental. And so, we have really filled out that line in terms of flavors, both permanent as well as limited editions. And that is what is driving that huge growth in Voila!.

And again, just to point out one of the sweet spots that we have on Voila! is a price point that when we go to family size we are still able to remain below $10, which is a really terrific value for a high-quality product and that is obviously meeting consumers' needs.

We filled out the Birds Eye Chef's Favorite line with a number of new SKUs, Chef's Favorite is the highest end of the Birds Eye line, so things like sweet potatoes which hadn't been there before, Brussels sprouts, filling in with restaurant type side dishes that we didn't have in there has been really good for us.

And then on the Duncan Hines line going to the other side of our portfolio, we have driven that business nicely through limited edition and seasonal items as well as adding to the decadent line and the Selects line -- excuse me, the signature line. And again not only are they bringing new users in but they are bringing in people at a higher [rank].

So we are going to continue to do that in 2015, that is why I am referencing 2014, you should expect to see more of that. But in addition to it we will talk to you about it next month.

And the reason we are not doing it now just because of the timing of selling to retailers, are several new platforms, not just flavor extensions, but several new platforms in the Birds Eye business as well as the new platform on the baking line that I think you will see has much more potential than just filling in flavors and segments within our existing lines.

Matthew Grainger - *Morgan Stanley - Analyst*

Okay, that is great. Thanks, Bob.

Operator

Michael Gallo, CLK.

Michael Gallo - *C.L. King - Analyst*

Two questions, Bob, you mentioned the ability for Gardein to accelerate your innovation into Birds Eye by two to three years. I was wondering if you can give us some sense of the timing of how quickly we'll start to see plant-based products in the Birds Eye line. Is that something that could happen later in 2015 or 2016?

And then just to follow up on if you can update us on how Recipe Ready is doing, where the coverage is now and whether there is -- you think there is too many SKUs or how you need to kind of rationalize that going forward? Thank you.

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

Sure. Yes, I think on the Gardein line what is really interesting is we have got to solve the capacity opportunity before we think about expanding into the Birds Eye brand. And if you look at the Gardein line and being able to fill it out in terms of new segments as well as new retailers, we could outstrip the capacity pretty quickly on that one. So that is far and away the first priority.

As we look at where we will put the next manufacturing site for Gardein and the size and the capacity around that it will give us the opportunity to have more clarity about when we would introduce something under the Birds Eye line.

So something -- to be candid, something we are still figuring out right now. And our first principle on looking at this Gardein acquisition is to make sure that we support their growth and not get in the way of it because they continue to do incredibly well if you are able to track them on Nielsen or IRI.

So, a little more information to come. I would guess by midyear at the latest we will have more clarity around where we are from a capacity standpoint on Gardein, which will then inform the innovation pipeline.

With regard to Recipe Ready, Recipe Ready is about a half a share point. It has been all incremental. We started off with a large number of SKUs and the consumer votes down to a core number of SKUs. And one of the thought processes we have to consider is how do we want to continue to market that under the Birds Eye line.

Is it a separate sub brand, does it become SKUs within the Birds Eye line, is all of what we are considering and having conversations with our retailers who really support this business.

There's clearly a need for it and there are clearly some core items in there that are doing great from a velocity standpoint. And we are -- to answer your question, we are at about 60% ACV right now and I think that is probably where it will stay in 2015 until we sort out some of those other questions.

Michael Gallo - *C.L. King - Analyst*

Okay, thank you.

Operator

Bryan Hunt, Wells Fargo.

Bryan Hunt - *Wells Fargo Securities - Analyst*

I was wondering if you can talk about -- and most of my questions have been answered. There is obviously this ongoing trend towards natural organic and fresh as well as local as well -- and proteins. I think Gardein definitely attacks some of those trends. Can you talk about what you are doing in your other legacy brands in terms of going after some of those trends in the next 12 to 24 months?

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

Sure. And what is interesting is we are addressing those trends across our entire portfolio. So given that we are in 13 different categories let me give you some examples of what we are doing and then obviously I can drill down deeper if you would like on any one of them.

If you take a look at Birds Eye, the primary reason for being is healthier eating and what we are making sure is that we continue to expand the lines in terms of making those products more convenient and taste better. Because what we know is that consumers know that they are supposed to be eating more fruits and vegetables and that their kids should be doing the same.

The issue when it comes to Birds Eye is when we talk to consumers they say help us make it more accessible through taste as well as convenience and that is the whole reason for the brand.

On Farmers Garden we -- on Vlasic we introduced Farmers Garden several years ago and we continue to expand that. And Farmers Garden is the all natural execution of the Vlasic brand, it is about a 2.5 share, it is at a premium price point. And it is doing nicely, it speaks to the need.

Now flipping over to the Duncan Hines side, which obviously is a brand that is all about indulgence and special occasions, but even there we saw opportunity on the morning side. And several years ago we introduced a product called Simple Morning, all clean ingredients, very recognizable.

It is interesting because it got off to kind of a slow start, and now we are witnessing that where it is in distribution its velocities are improving nicely with really no marketing and promotion behind it. Consumers are discovering it and there is a lot of word-of-mouth around it. So with an opportunity to expand that line.

And I could go on and on across our portfolio, but one of the tests that we use when we look at our portfolio in our brand plans is what are our brand teams and our R&D teams doing with our existing lines to make sure that they align against the consumer trends of healthier, convenience and experience.

And experience is a broad category, but that is exactly the way we think about reinvigorating our iconic brands, or bringing those trends, those contemporary trends to iconic brands and it is happening across the portfolio.

Bryan Hunt - *Wells Fargo Securities - Analyst*

And then my next question is, you've bought one of your co-manufacturing facilities that used to be doing Duncan Hines and then you are looking at building another facility to handle Gardein. I was wondering philosophically if you could talk about co-manufacturing versus vertical integration.

It appears some of your larger CPG peers tend to be swinging the pendulum the other way and using a lot of co-packers versus being vertical. Again, can you philosophically talk about the differences between maybe your strategy today versus your peers and maybe what your long-term goals may be, if you have any, with regards to being vertical? Thanks.

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

Yes, if you look at our senior team we all have 25 to 30 years of experience in the industry. And so, we have all operated under our share of internal manufacturing as well as co-manufacturing. What I'd tell you is that right now about 90% of our volume is internally manufactured and we do that for a couple of reasons.

One is we think that we are better at driving efficiency and cost out of the supply chain than anyone else. So if that is a core driver of business value, if you outsource that production to somebody else by definition you are not able to get access to that productivity and efficiency that we are able to drive.

So when it is a product that we know that we are going to be running for the long-term we have every incentive to be able to control that manufacturing to be able to get a disproportionate share of cost out of that business and drive efficiency.

I would also remind you that not only in general do co-manufacturers not have the same incentive to share with you the productivity that they're able to generate, they also have an overhead structure and a profit that you are paying as well. So unless you are high cost manufacturer it is hard to justify co-manufacturing from the cost side.

Second part of it is we like having control over the quality and the innovation. When you are using co-manufacturers you are less likely to share breakthrough innovation because you are tipping your hand way in advance. And if you ever decide to repatriate that volume into your own facilities in the future you leave capacity out there in the industry and the know-how for somebody to go out and compete directly against you on a platform that you have now trained them on.

And then I think the areas that we remain with co-manufacturing are very small, they typically are small add-on businesses where we don't have the expertise and in some cases where we want to try something that is an innovation that we don't think is a trade secret or proprietary that we want to experiment with before we invest in the capital. But really our intention over the long haul is to own our own supply chain and to be able to use that to drive quality, efficiency but also innovation.

Bryan Hunt - *Wells Fargo Securities - Analyst*

Thank you for your time.

THOMSON REUTERS

Operator

Chris Growe, Stifel.

Chris Growe - *Stifel Nicolaus - Analyst*

I still have a question after all those questions there, but if I could very quickly ask about the phasing of earnings for the year. You have indicated in the first quarter at least higher inflation, more back half loaded savings. Especially also the Wish-Bone integration being more 2Q and going forward.

The other factor I wanted to throw in there was Easter, just to understand how that first-quarter/second-quarter shift may occur and how that [related to a] shift in earnings between the first half and second half?

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

Yes, thanks for that question, it is important. You want to go through that, Craig?

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

Sure. So, Chris, you are absolutely right, we said inflation is going to be higher in the first quarter, so by definition certainly higher in H1 than H2. And very typical of our profile the productivity savings are back end loaded, so you will expect to see more productivity in the second half just like you did in 2014.

And the Wish-Bone integration is once we complete that and in source the co-packing from Unilever in our second quarter you will see the synergy savings in the back half. So, definitely expect more EPS growth in H2 than H1.

The Easter shift, and I think as we disclosed last year, Easter is earlier this year so you will see more sales in Q1 at the Easter holiday is right at the beginning of the second quarter. But because of the associated trade spending associated with that the overall effect on earnings and EPS is not that significant between the first and second quarter.

Chris Growe - *Stifel Nicolaus - Analyst*

Okay, that is helpful, thank you. Just one quick follow up would be last quarter we talked about some of the areas of your portfolio where you're taking pricing particularly around proteins. And I was just curious how those brands in general performed. Are you seeing higher levels of elasticity than you expected? Has it caused you to change your strategy essentially?

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

No, I think we are happy with the response that we are seeing out in the marketplace on those. I think we talked about last time around that no one is in a position to be able to take broad pricing actions across their portfolio. But our investment that we have made over the past couple years in understanding trade and pricing analytics have served us well and we have a pretty good feel of where we can get net price realization without just a blanket price increase.

But as I said earlier, if you take a look at even the relatively modest inflation that the industry in total has seen over the past three years, and you compare that to the price realization, there is a tremendous gap between inflation recovery through pricing.

And we have done well by having very strong productivity, but at some point you do have to capture that. You just have to be very tactical and very thoughtful about where you get that. And the actions that we put in place that you reference have done very well in the marketplace.

Chris Growe - *Stifel Nicolaus - Analyst*

And then just a quick follow-up. Were there any other categories or any other brands where you've taken incremental pricing say in the fourth quarter? We know about some of those in the third quarter. Any more areas you have announced pricing of late?

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

No, I wouldn't say substantially. As we mentioned the last time, we've priced on our Armour portfolio and Nalley's chili on the protein side. We have added some pricing on Hungry-Man and Aunt Jemima entrees in the first quarter of 2015. So not substantial increases from where we were before.

Chris Growe - *Stifel Nicolaus - Analyst*

Okay. Thank you very much.

Operator

Ken Zaslow, BMO Capital Markets.

Ken Zaslow - *BMO Capital Markets - Analyst*

Just two questions one is what insights led you guys to find the opportunity in Hungry-Man? And are there any other brands that you are leveraging, whatever knowledge you found or insights that you can be doing stuff with your non-leadership brands?

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

The Hungry-Man insight I think you are referring to is what led us to the Select line as well as the willingness to take pricing. It is a very interesting brand in that back on all the conversations that we have about health and wellness and positioning for the future and millennial's, it frequently gets pointed out as a brand that seems to be out of sync with the times.

But my response is always that it has been a 7 share for a very long time and it continues to hang in there very nicely and we even had -- we have had great years like 2014 on Hungry-Man.

It is as -- my answer is going to be somewhat I think unsatisfying in that you've got to know your consumer. And we understand the consumer who really loves this brand. There are very few substitutes in the freezer case that provide comfort food in sufficient quantities; most of the quantities have been reduced dramatically over the past number of years. We have not lessened the quantity of food.

And we made a strategic choice a couple years ago when we really understood this brand that we had to go one direction or the other. One was if we needed to keep reducing the price then we were going to have to cheapen the product quality.

We believed that we could go a different direction which is actually maintain and increase the product quality and charge a higher price for it and creating a two-tier line of selects for those items that were actually higher cost to us.

We had some retailers that welcomed it, we had others that were really skeptical. But I think the proof is in the business performance and that is this is as simple as if you understand your consumer and they are willing to pay for quality and quantity, they realize that they have to pay more for it over time. And we were just not shy about taking pricing to support it.

The other thing I would point out is in an environment with protein, these items are absolutely loaded with protein. And it is something that we haven't really talked about but you are going to see beginning in some of the packaging already, we're going to start calling out the protein content in some of these.

And when you are actually selling real chicken and real pork in sufficient quantities the protein claims are very, very high end our consumer knows that. And they also recognize that that is costly as well. So it is just a matter of [offering the right] value and getting price for it.

Ken Zaslow - *BMO Capital Markets - Analyst*

My next question is -- when you talk about -- why does productivity savings have to be back-end loaded? And when I think about the vacation days change, was that significant and did you kind of come -- at the end of the year you were a little bit below your productivity savings and you said, look, we need to do something with our vacation days and that kind of got you over the edge? Because I just don't understand why everything has to be back-end loaded with productivity savings.

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

Yes, the vacation benefit was completely separate from the productivity. We deliver productivity at the high end of what we guided to in 2014 and the vacation benefit was completely on top of that. And that was really as straightforward as recognizing that with new people on board looking at policies within our business that we had a vacation policy that was really out of sync with the times.

And then we found out later that if we changed the policy it actually had a benefit. That is the order in which we came up with it. And then we knew that we had that as a reserve in our back pocket going into the end of the year to be able to invest in the business. So that is the thought process behind that. With regards to timing of productivity, Craig, why don't you talk about that a little?

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

Yes, Ken, it is for a consistent with what we do year on year. The productivity programs that start early in the year, it is the timing of the flow through with the inventory. So when the productivity program comes in place it takes a couple of months to be able to get it into operation.

And then you have inventory on the balance sheet that you have to wind down before you have the productivity savings actually hit the P&L. So a lot of the first half projects we are working on benefit the second half P&L. So it is just consistent with what it has always been for us.

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

And one of our priorities has been identifying the productivity earlier and earlier in the year so that before we go into 2015, for example, making sure that we have the majority of the productivity savings for 2015 defined by the fourth quarter of 2014. We have done a really good job of that and that has helped with some of this timing, but there still is sort of a natural flow through the P&L that makes it more back end loaded.

Ken Zaslow - *BMO Capital Markets - Analyst*

Why isn't it just a continuous process? Like, why does it start in the first quarter? Why doesn't it start in the third quarter of the year before and just kind of be like a wheel, just keep on going rather than --?

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

Yes, I get the question because I asked the same question myself, so I am glad you are asking it. I think over time it will get better. What we have been doing is ramping up productivity which means that you load up more productivity into next year, you are getting more of that flow towards the back half of the year. But I think that as you get more of a steady-state your thought process is sound in that it should be more balanced going forward.

Ken Zaslow - *BMO Capital Markets - Analyst*

Great, thank you.

Operator

Thank you. That is all of the time that we have for questions today. So I would like to turn the call back over to the speakers for closing remarks.

Maria Sceppaguercio - *Pinnacle Foods Inc. - SVP of IR & Communications*

Thank you, everyone, for participating on the call today. Sorry about the timing; we went a little bit over, but we appreciate your participation. I am around all day to take any follow-ups that you might have. So don't hesitate to reach out. Take care.

Operator

Ladies and gentlemen, thank you again for your participation in today's conference. This now concludes the program and you may all disconnect your telephone lines. Everyone, have a great day.