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EDITED TRANSCRIPT

PF - Q1 2014 Pinnacle Foods Inc. Earnings Conference Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and thank you for standing by. Welcome to the Pinnacle Foods' earnings conference call first quarter for March 30, 2014. This conference is being recorded and there will be a question-and-answer session at the end of the call.

I'll now like to introduce our host for today's conference, Pinnacle's Senior Vice President of Investor Relations and Communications, Ms. Maria Sceppaguercio. Please go ahead.

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

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

Earlier this morning we had issued our press release for the first quarter of 2014. If you haven't received a copy of the release, you can get one on our website at www.pinnaclefoods.com.

As you know, on Monday of this week we announced that we entered into a definitive agreement for the sale of the Company to Hillshire Brands. The transaction is subject to customary regulatory and shareholder approval and is expected to be completed by September 2014. The merger and voting agreements related to this transaction have been filed with the SEC.

I want to emphasize that the purpose of today's call is to share with you our results for the quarter and to provide the opportunity for you to ask questions. Given the announcement on Monday, we expect the call to be brief and will not be taking any questions regarding the pending transaction.

Turning to the quarter. Consistent with our reporting in previous quarters, we have provided in our press release and will discuss here this morning our results on an adjusted pro forma basis. This assumes the IPO and the subsequent refinancing occurred on the first day of FY13 and excludes

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IPO and refinancing expenses and restructuring related and other items, which we collectively refer to as items affecting comparability. Stock-based compensation expense as we discussed last quarter 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 tables included in our press release and are discussed in detail in our 10-Q which will be filed later today.

Also reconciled in our release and 10-Q 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.

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 filing with the SEC. With that, I'll hand it over to Bob.

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

Thanks, Maria, and thanks to everyone for joining us today. As you know it's been an eventful week for us. The pending transaction with Hillshire is a testament to the success we've had building Pinnacle into the great Company it is today as well as the confidence we and others have in our business model and outlook for the future. Our shareholders have been rewarded by the value offered from this transaction.

We also see the combination of these two businesses to be highly strategic. Resulting in a stronger single Company with increased scale and capability, including the ability to access new sources of growth across both portfolios. The combination also enhances the ability to drive ongoing cost efficiencies.

As you know the transaction is subject to regulatory approval as well is approval of Hillshire and Pinnacle shareholders. In the meantime, the team here at Pinnacle will continue to manage the business as we have all along, executing our focus business model that creates value. We at Pinnacle take great pride in our Company and our brand and we're committed to continuing to deliver results in line with 2014 guidance we provided previously.

Now turning to the quarter. First quarter was a good one for us. Despite the industry growth challenges driven by the late Easter and unusually tough weather earlier in the quarter, we delivered results that were consistent with our guidance. Starting with the top line, we grew consolidated net sales 5% and North American Retail net sales approximately 8%, driven by share growth and the benefit of the Wish-Bone acquisition. Our calculation of the impacted Easter timing suggested it was an approximate 2% drag on growth in the first quarter.

We again out paced the performance of our categories, enabling us to grow our composite share for the quarter. In fact, we grew share in 10 out of 13 categories.

All of our leadership brands grew share in the quarter except syrups and Wish-Bone. And as we discussed previously, the Wish-Bone share results were expected given that we continue to cycle past the heavy year ago promotional spending on the business in advance of its sale. In addition, our foundation brands also delivered strong share performance in the quarter.

In terms of margin, we expanded our adjusted gross margin by 70 basis points driven primarily by improved product mix, which is an important element of our strategy. While we expect productivity to outpace inflation for the year, it actually was the opposite in Q1, which demonstrates the importance of driving improved mix in order to be able to expand our margins. Altogether, these elements drove EBIT growth of 10% for the quarter.

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Also, as expected, our interest expense was higher in the quarter due to the debt we assumed to fund the Wish-Bone acquisition, while our effective tax rate was lower. The combination of all of these factors enable us to deliver adjusted diluted EPS of $0.36 compared to $0.34 in the year ago.

Turning to our Birds Eye Frozen division. Revenue was up approximately 1% driven by the leadership brand portfolio, particularly Birds Eye Voila! which continues to benefit from distribution expansion and the introduction of new on trend varieties. As well as the successful lent for Mrs. Paul's and Van de Kamp's seafood.

Birds Eye vegetables net sales were down modestly in the quarter, due primarily to the timing of Easter as well as new product introductory costs. And share was actually up 0.6 points for the quarter.

Our foundation brands were even with year ago with growth of Hungry-Man driven by our new higher priced Hungry-Man selects variety offset by the balance of the frozen foundation brand portfolio. EBIT for the division was down about 5% reflecting the timing of inflation versus productivity in the quarter.

Our new Birds Eye Recipe Ready line of pre-chopped and blended vegetables continue to build distribution and trial. At the end of the first quarter, ACV distribution for Recipe Ready exceeded 55% and we continue to expect to achieve distribution of about 60% to 70% by year end.

The business which is highly incremental to both the category and Pinnacle enjoys very strong repeat rates and has responded well to consumer market including the television we debuted during the first quarter. We plan to continue to invest in driving awareness in trial.

Our Duncan Hines Grocery division posted another quarter of strong top line growth, largely driven by the benefit of Wish-Bone, partially offset by Easter related timing of Duncan Hines and Vlasic. EBIT for the division was up 41% reflecting Wish-Bone and a favorable inflation productivity relationship.

Market share for the quarter was strong across most of the portfolio. During the quarter we introduced Duncan Hines limited-edition spring velvet which expands on the successful holiday velvet intro last quarter, and a decadent salted caramel brownie variety which taps into a popular flavor trend.

Turning to Wish-Bone, the business continues to be on track with our expectations including our planned timing for start up of intro manufacturing at the end of the first quarter 2015. During the quarter we added two new flavors of pourable salad dressing and two new dry mixes as well, all of which were sold into the trade prior to our acquisition of the business. Our Specialty Foods division, which includes our private label, food service and snack businesses, posted lower sales and EBIT in the quarter largely a result of lower sales of private label canned meat in a heightened competitive bidding environment.

Finally, a critical component of our value creation model is cash flow generation. Once again, we delivered excellent cash flow results, significantly exceeding year-ago levels.

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

Craig Steeneck - *Pinnacle Foods Inc. - CFO*

Thanks, Bob, and good morning, everyone. Starting with sales, our consolidated net sales increased 5.1% in the first quarter to $644 million largely driven by the benefit of Wish-Bone, partially offset by the unfavorable impacts of the later Easter and a decline in sales in our Specialty Foods division. As Bob mentioned earlier, the later timing of Easter this year negatively impacted sales in the quarter by approximately 2%.

North American Retail net sales advanced 7.6%, reflecting an 8.7% benefit from Wish-Bone and slightly higher volume mix. Partially offsetting this growth were lower net pricing of 0.8% related to higher new product introductory expenses and unfavorable foreign currency translation of 0.4%.

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For our Frozen division, net sales increased 0.6% largely driven by an increase in volume mix. The growth was driven by our leadership brand portfolio while sales for our foundation brands were flat.

For our Duncan Hines division, net sales advanced 16.6% due to a 19.8% benefit from Wish-Bone, partially offset by lower net pricing of 1.8%, a decrease from volume mix of 0.5% and unfavorable foreign currency translation of 0.9%. For the base business, net sales growth from Armour canned meat and Nalley chili was offset by Easter related declines in Duncan Hines baking products and Vlasic pickles.

Finally, for our Specialty Foods segment, net sales were down approximately 9% in the quarter. This performance was driven by lower volume mix of 8.7% and lower net pricing of 1%, partially offset by 0.6% benefit from the Wish-Bone food service business.

As we indicated last quarter, we expected Specialty Foods sales to be down in the quarter due to the softness in the private label canned meat market and the resultant heightened competitive bidding environment. While we expect Specialty sales to remain under pressure, we continue to expect specialty EBIT to be up for the full year.

Now turning to gross profit. For the first quarter, excluding items affecting comparability, our gross margin expanded by 70 basis points to 26.2%. Importantly, we delivered the strong performance despite inflation that exceeded productivity in the quarter due to improved product mix including the benefit of the higher margin Wish-Bone business.

Inflation in the quarter totaled approximately 3.5%, largely driven by higher cost inventory from 2013 flowing through Q1 2014. While productivity totaled about 3%. We continue to expect inflation to be higher in the first half of the year while productivity is expected to be greater in the second half of the year.

Moving on to adjusted EBITDA. Adjusted EBITDA totaled $113.1 million in the quarter, which was up approximately 9% versus prior year. This performance reflected the growth in net sales and gross margin expansion, partially offset by increased administrative expenses, largely reflecting higher equity-based compensation expense.

Interest expense for the quarter on an adjusted pro forma basis increased 20% to $24.4 million driven by the additional Wish-Bone acquisition debt. For the full year, we continue to expect total interest expense to be approximately $100 million.

Adjusted pro forma net earnings advanced 7% to $42.3 million, or $0.36 per diluted share in the quarter, compared to $39.5 million, or $0.34 per diluted share in 2013. The growth in net earnings largely reflected the growth in EBIT partially offset by higher interest expense. The timing of Easter negatively impacted the quarter by approximately $0.02 per diluted share.

In terms of our outlook for the year, we continue to expect diluted EPS in the range of $1.70 to $1.75 after giving effect to stock-based compensation expense and items affecting comparability. This guidance continues to incorporate input cost inflation for 2014 of approximately 2%, productivity in the range of 3% to 4% of comps, and effective tax rate of approximately 38.9% and a full-year weighted average diluted share count of 117.2 million shares.

Now turning to cash flow. Cash flow from operations totaled $94 million in the first quarter of 2014 compared to $68 million in the year-ago period, largely reflecting the growth in earnings before income taxes. Capital expenditures in the quarter totaled $22.4 million compared to $18.2 million in the first quarter of 2013. For the year, we continue to expect capital spending to be in the range of $120 million to $130 million including approximately $50 million for the Wish-Bone capital.

At the start of Q2 we closed on the previously announced acquisition of the primary Duncan Hines manufacturing operation from our co-packer Gilster-Mary Lee. As we discussed with you last quarter, the total purchase price of the business was $16.5 million plus the value of inventories which totaled approximately $10 million.

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Now turning to debt. At quarter and, total debt was $2.5 billion, including $2.1 billion in term loans due 2020 and $350 million in 4 7/8% senior notes through 2021. We had no outstanding revolver borrowings during the quarter. Cash on hand at quarter end totaled $158 million, bringing our net debt to $2.3 billion. Pro forma for the Wish-Bone acquisition, our net leverage at the end of the quarter was 4.6 times.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Andrew Lazar, Barclays.

Andrew Lazar - *Barclays Capital - Analyst*

Bob, a big part of Pinnacle's strategy has been on the M&A front. And you've talked often about some of the potential you saw in being able to hopefully consolidate some of the Frozen category a bit over time.

I'm wondering if irrespective of the Hillshire deal, I'd love to get a better sense from you on perhaps what being bigger in the Frozen case might have done for Pinnacle? Forgetting about the potential financial accretion, I'm really interested more in the strategic rationale. Is it just the scale that would help you?

Does being bigger in Frozen help in other ways, such as with retailers or from what you can do from a demand building perspective? Trying to get a sense of specific examples that would be of help here.

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

Sure. I'll answer it from the perspective in which you asked, which is how do we think about the Frozen category from an M&A standpoint. As we talked in these calls, as well as most recently as our CAGNY lunch and how we were excited about making acquisitions in Frozen.

We look at Frozen and a couple of facts. Incredibly large temperature class, it's made up of a bunch of different categories.

From a retailers perspective, it is really important, not only from sales, but from a profit perspective. They had a lot of assets tied up in it and it's one of the areas where you know the space isn't shrinking. In fact, if you look at alternate channels, space for Frozen is actually growing as dollar and drug continue to add freezer cases.

So it's one of those unique opportunities where you know that the space is fairly locked in in traditional and yet it's expanding in nontraditional. So we saw that as a really good long-term trend.

We also know that Frozen is not one category from a consumer perspective. It's made up of a number of different individual segments. And if you look at the numbers, they have very different growth levels.

Some of the areas that have been much better in growth have been seafood, vegetables and fruits, frozen breakfasts, anything that's in a hand-held format. And so when it gets tapped is one category that's always written as challenged, we never look at it that way, because we look at pockets of growth within there, many of which that we participate that we really like.

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We've been attracted in consolidating that space. One, it's fairly fragmented. Especially when you look below the top five.

We know from first hand experience with the Birds Eye acquisition that there are tremendous synergy potentials. You can really get at above average cost levels in Frozen because of the manufacturing capabilities and the logistic synergies that are possible.

We also know that category -- excuse me -- retailers are looking for somebody to step up and help them lead the category. And it's a really unique position to be in, because as I said, that space is large and it's fairly fixed.

But what's open for discussion is where does that space get allocated and how does that section get promoted? And we've been taking an increasingly bigger leadership role in that category. Largely because we've been one of the few companies that's been talking positively about Frozen.

So you can imagine if you're a retailer, you only want to work with people who are excited about it. And we've been encouraged by them to get bigger in Frozen for that reason.

And so -- I can give you a lot of examples. But the most recent one is in complete bagged meals or skillet meals. We've been getting more and more space handed to us by retailers, because of our strong performance on Birds Eye Voila! and our vision for that section where as some other brands have really faltered in that category.

And we actually find ourselves in some positions being maybe for the first time in my career getting more retail space than we wanted to in some of these segments. So we know that by adding new brands into that portfolio, we could drive not only the cost side but the revenue side.

I think the other thing that we've been looking at in Frozen, it's not -- obviously not an indiscriminate just go out and buy anything Frozen, we've been very thoughtful about where we would want to go. And part of the opportunity is to bring new capabilities in.

I'll throw one example, I said handhelds are growing. And we've got a lot of brands that will play really well in handhelds. And we've dabbled in that space to co-manufacture.

But if we were able to get a capability that allowed us to be more serious in that space, that would the great from both growth and profitability. So, I'll pause and see if you want to drill in anymore.

Sorry for the long answer, but we got a lot of passion for the Frozen and for the upside in that space. And clearly we thought a lot about that over the past couple of years.

Andrew Lazar - *Barclays Capital - Analyst*

Thank you for that, that's along the lines of what I was looking for. One quick follow up on the quarter would be, how much, if any, of the negative price mix that you saw -- or the negative price that you saw in the quarter was any change to the promotional environment or -- because, I know you've said in the recent past, while the categories always competitive, it seemed like we were not at least in this race to the bottom as of yet. So has that been any change? Or is it primarily really from the new product launches and things that you had estimated in the way you budgeted in the year?

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

Yes, I think -- I can take a look at the IRI results. And it's important thing, we're talking specifically about the quarter. But we now have IRI results through April, which is helpful because it allows us to look at least on a consumption basis and share basis at an industry where the noise of Easter is at least removed.

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And so my conclusion after looking at the first four months, is the pricing environment is slightly improved versus the fourth quarter. No surprise there.

I would characterize it as fairly consistent to what it's been. And really, nothing remarkable. Any of the negative pricing that you would see in our numbers, a lot of that's due to, and Craig you can jump in, timing of slotting and some other (inaudible). But when you look at our reflective price in IRI, it's pretty much in line with our categories and very similar to what it's been.

Craig Steeneck - *Pinnacle Foods Inc. - CFO*

Sorry, Andrew. We noted in the script and the Q that we file shortly is that the overall pricing for North America Retail for the quarter was only down 0.8 points, so less than 1%. And most of that was the slotting costs of the new product introductory cost in this quarter that were different from a year ago.

Andrew Lazar - *Barclays Capital - Analyst*

Great, thanks very much, everyone.

Operator

Farha Aslam, Stephens Inc.

Farha Aslam - *Stephens Inc. - Analyst*

Could you share with us the performance of Duncan Hines and the rest of the portfolio? In particular, Birds Eye for the Easter season?

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

Yes. So when I took a look at March, April and I get -- I got the consumption number, I don't have the share numbers right in front of me, I can get them in a minute. But I can tell you that both the Birds Eye brand and the Duncan Hines brand, when I look at March, April had absolutely terrific share performance. And both grew absolute consumption in negative categories.

So when I take a look at it from an industry perspective, when you look at March, April, it's moved out the noise and the timing of March into April. But I have to tell you from a total industry perspective, it wasn't a very robust Easter when you compare it to the same time period a year ago. And we see it across a bunch of categories, a lot of negative numbers.

But for example, our March, April consumption on veg was plus 1.5% in a category that was down pretty sharply. Our baking business was up 3.1% consumption in a category that was down pretty significantly, down about 3%.

So, Maria do you have the shares handy on those? Because I have it at the consumption.

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

Yes, vegetables, we actually grew in the eight weeks 1.2 share points. And on baking, it was 1.6 share points.

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Bob Gamgort - *Pinnacle Foods Inc. - CEO*

So those are, as you know, which is why you're asking the question, those are critical categories that are really impacted by Easter. And I feel great about the programs we put in place as evidence by the share.

Farha Aslam - *Stephens Inc. - Analyst*

Just a follow up on that program around the holidays. If you look at your success on the top line, do you think it's driven by new product, your sales team? If you had to highlight the things that you've changed over the last two years or three years at Pinnacle that's built the organization, could you share with us your product innovation efforts and particularly your sales team strength?

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

Sure I think it's -- as is typically the case, it's a number of things that converged to deliver great results. It's not a here's one thing that we did. So let me give you a couple of them.

I think one, let's start with sales organization, which you're asking about specifically. If you recall last year, we converted a number of our headquarters from broker to direct. And in fact, we now represent more than half of our headquarters sales with our own people. We had to hire a number people and get up to speed.

The good news was, there were no issues in that transition which is what you hope for in year two, and then you say we want to start seeing traction from that. Clearly, we're getting very good traction from having our players with a dedicated focus talking to customers. And we continue to build good strategic business relationships with that team. So no, I have to compliment our sales team for outstanding execution during that time period.

The other piece of it is a combination of new product and marketing efforts. Duncan Hines, we've had good success now introducing seasonal new products. We had holiday limited-edition at Christmas. We did the same thing in spring, which has a big benefit.

And then in the case of veg, it's a combination of higher value-added products from helping not only mix, but growth and some of it being recipe ready, but also chef's favorite and some of the higher end items that do really well during holidays. But one of the things you see during the holiday is branded typically grows at the expense of private label, and higher end items typically get better performance, which is great not only from a growth but a profit standpoint. We certainly got that.

And I also think we sharpen our pricing strategy as we get in the fourth quarter on veg, where we got more aggressive on certain items and less aggressive on other items and the balance worked out really well from a combination of share growth and profit. So again sorry for the long answer, but it's always that combination of a bunch of things that work to drive share growth. It's never as easy as just one thing.

Farha Aslam - *Stephens Inc. - Analyst*

Thanks for the additional color.

Operator

Robert Moskow, Credit Suisse.

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Robert Moskow - *Credit Suisse - Analyst*

Bob, I wanted to get your thoughts on the potential in the shelf stable part of the store for brands that are in the refrigerated or frozen section to come in and introduce new products that play well in the middle of the store. Obviously, your acquirer has talked about that as being a big part of the strategy.

And how much room is there in the middle of the store? And how hungry are retailers for yet another brand to come into some of these categories?

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

Retailers are hungry for any brand that will bring a new solution and a new set of consumers potentially into any section of the store. And I think one of the untapped potentials in many companies, obvious I'm not going to speak about this one in particular. But Easter really transferred the benefits of strong trademarks that exist in one product format into another format, as long as you're delivering the same benefit that exist.

And I give you an obvious one in the case of Wish-Bone. Wish-Bone is a leader within the pourable salad dressing. The total salad dressing category has been growing about 2% per year.

We've taken a look at that and said, how do we get into the refrigerated side of the portfolio because the Wish-Bone brand is completely extendable into that, especially in a premium format? And yet, we haven't had the capability to do that and refrigerated salad dressings have grown nicely.

So I think there -- if you step back and you say, brand stand for benefit and they don't stand for a temperature state or a format, they stand for a benefit. And what we do with our innovation pipeline, is we try to extend that brands benefits into other forms. The practical side of that is if you don't have capabilities in certain temperature classes, it doesn't make sense to launch brands as a one off.

I'll remind everybody that when we launched Farmer's Garden, the consumer wanted to do see it in refrigerated and produce, so we did that. We had tremendous results, but it was only in the 2% of the ATV we were able to reach. And the profitability wasn't very good.

So we pivoted and we launched in shelf stable and it's done well. It would have done better in produce and refrigerated had we been able to do it.

So I think it's a matter of the consumer wants to see these brands everywhere, does the Company have the capability to profitably deliver these brands in different formats? So I think it's wide open.

Robert Moskow - *Credit Suisse - Analyst*

A quick follow up. The food PPI data came out today and it's much more inflationary than I thought. It's over 4%. I imagine a lot of it is protein related. But Craig, are you seeing anything on the horizon where your ingredient cost could be going up quite a bit?

Craig Steeneck - *Pinnacle Foods Inc. - CFO*

Rob, when we did the call last quarter, we had our input cost guidance all-in cost inflation at 2%. We remain at that guidance level today.

We have certainly seen input cost inflation in proteins and in dairy and in tradable grains. But because the hallmark of this portfolio being the diversification of the input cost basket, that diversification has allowed us only to get minor increases in those categories. And we're still very comfortable that 2% all-in inflation for the year, is still the right answer.

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Bob Gamgort - *Pinnacle Foods Inc. - CEO*

Rob, one of the things on to add to it, as Craig talked about, one of the things we talked about with you guys in the past is about how broad our input cost basket is. We always joke internally, we always have something going up significantly, but it's usually offset by something else going down. And so that's going to -- with the exception of one or two years where everything in the food industry went up, we've been able to withstand a lot of these shocks and offset them. And that certainly is the case today.

I think the other piece that's interesting, you mentioned dairy and proteins. But also fresh vegetables and fruit have gone up dramatically and a lot of that has been sourced from California. We know the issues in California.

We do not have a -- much coming from California at all across our input cost basket. As I think you guys know, most of our veg sourcing is from the Midwest. And so I think we may be in a position where if the fresh produce prices continue to be high, it actually can be a benefit for the Frozen category where we offer a relatively good value.

Robert Moskow - *Credit Suisse - Analyst*

Got it, thank you.

Operator

Sachin Shah, Albert Fried.

Sachin Shah - *Albert Fried & Company - Analyst*

I wanted to talk to you about the deal. The stock has traded off a little bit on an implied basis because of Hillshire stock declining as well because of the stock consideration. But more importantly, I don't think some questions as far as them being speculated on being acquired has been really addressed in a public way.

So, I know it's a different company. But at the end of the day, the merger agreement, the way it reads, leads people to further speculate that something else is going on here with them, even though they are the acquirer and they are acquiring you. So how can you address to shareholders of your Company, more importantly here, to show that this deal is moving forward and that both Boards commitment to seeing this deal to the finish line is obviously there?

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

This is Maria, hi, thanks for the question. What I want to get back to is what we said at the outset, is that the purpose of the call was really to talk about the quarterly results and provide investors the opportunity to talk about the business fundamentals. This call is not about the transaction and we really aren't going to take questions regarding that.

So I know it's of interest and there's a lot of speculation out there. It is speculation and we are not going to take questions regarding that.

Sachin Shah - *Albert Fried & Company - Analyst*

Okay, fair enough. Thank you.

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Operator

Eric Katzman, Deutsche Bank.

Eric Katzman - *Deutsche Bank - Analyst*

It was great following you for a solid month. We appreciate, we enjoyed every moment of it.

Following up on Rob's question, so we're seeing more inflation. Bob, I think you said volumes in the industry, although you're doing reasonably well, volumes in the reasonable continue to be soft. Easter wasn't as good as expected.

Bob, not to talk specifically about this transaction, but what are you putting on your industry hat? What do think that means for the industry, both from a fundamental perspective? Do you think companies, really, and the consumer have an ability to take pricing on the back of inflation today?

Is this going to result in more portfolio adjustments across the industry? Maybe pontificate on that. Thanks.

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

You know I want to pontificate, so I will take that as an opportunity. Let me talk first about what I think is going on in the industry from a growth perspective, and clearly we've thought a lot about that. I will talk about M&A more generally because I do think one of the solves for this from a manufacturer standpoint is M&A.

So from a growth standpoint, I read all these reports and obviously we're tracking this stuff month by month, there was a lot of noise, probably more noise than ever year to date because of not just the Easter timing, which happens all the time, but the tough weather and how you read in the weather. It's hard to believe now with the temperature finally breaking 60 degrees in New Jersey, how bad the winter was back there.

But when I step back now and I look at the four months worth of data, I would say that my conclusions are we had great share performance. As I said we gained share in 10 out of 13 categories.

But this industry is still very growth challenged. And even though I'm very happy with the performance we had at Easter, I'm disappointed with the level of growth that we see when you smooth out a lot of the Eastern noise.

So when I step back and I say is that surprising? It really shouldn't be surprising any of us. This is always rooted in the health of the consumer. And in the end, the problem was caused by the health of consumer, it'll get solved ultimately by the health of consumer. And everything else that we do is manufacturers and retailers in the meantime is to try to bridge the gap until the consumers healthier.

I started thinking about it. I can list a long number of negatives that are impacting the consumer today, including unemployment, no (inaudible) come snap reductions, et cetera, et cetera. But then you have to pile on top of that in the first quarter, they also had probably their highest heating bills they've ever had.

And we all read about and we all felt personally, I'm sure, when we turned our tax returns in in April and we were surprised by how much higher they were because there were a lot of hidden taxes that were implied there. So people felt a lot poorer than they did after the winter and in April then they probably expected.

I try to find what's the list of positive catalysts are and I can't find one right now. So as a manufacturer, you say, we keep driving what we can control. We control share growth.

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We believe we have a huge influence over share growth as evidenced by our results. We keep trying to drive innovations that not only take share, but bring new benefits to consumers to try to bring some excitement. We are completely focused on margin expansion because that is the biggest controllable.

A lot of what the were quick solves on this growth issue, let's go to emerging markets or let's go into ultimate channels, don't appear to be as great as they once were. See the issues of emerging markets and then look at Whole Foods performance year to date. So even Whole Foods is vulnerable in this environment.

So I think again, you can tell about the stuff it gets down to how healthy is the consumer. Not very healthy. When will they be healthy again? I don't know, but we've got to prepare to run a business and deliver value in the meantime. It won't last forever, but we need to see some positive catalyst.

As a result, one of the biggest solves in this environment is M&A. And I think when we did the CAGNY luncheon, we had a really good conversation about M&A.

I said there were probably four reasons, there are probably more than that, four reasons why M&A was going to heat up in 2014. I had no idea how good my prediction was going to be, I didn't expect to be on the other side of that conversation.

But I said the industry is incredibly growth challenged and it won't get fixed in 2014. There's incredible pressure to reduce cost. There's more activism than ever to do something. And there feels like there's a debt window right now to do deals with low debt.

I would also say, by the way, those things are linked, are absolutely linked. The reason the debt is still low is because the economy is still weak.

So, it's exactly what's happening and I think it will continue to happen. And I think it is a solve that gets people through the next couple of years until the consumer is feeling better again. But we're not going to see growth in this industry until that happens.

Eric Katzman - *Deutsche Bank - Analyst*

And if the -- I'll follow up quickly. Do think that your peers because of the tax basis of the assets, that that's always been the impediment to changing around the portfolios. Do you think that we're at a point now where the challenge -- CEOs and Boards are willing to take tax dilution to change the portfolios around? Tax related dilution?

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

So it's a really good question. So everything I just said, would say M&A will go through the roof. We know, we all know that there are two headwinds to it. You just grab one of them, which is we call it tax linkage. And the other one I put in a category as stranded overhead. Those are still a headwind to more deals happening.

So what I expected, and I think we talked about it at the CAGNY lunch, and what I expected was you'd see more company sales, outright sales of companies versus selling it brand by brand. You'll continue to see companies that have some tax advantages. That's why Unilever can sell brands like Wish-Bone to us. And you'd also see some more creative transactions.

As you know, our big wish list was to do an RMP, a Reverse Morris Trust like transaction, to be able to consolidate a big piece of business in a tax advantaged way. So I think that those are still barriers. But everybody's individual situation, Eric, is different and is going to depend at what point they say we got to do something.

Eric Katzman - *Deutsche Bank - Analyst*

Thanks, I'll pass it on.

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Operator

Ken Zaslow, Bank of Montreal.

Ken Zaslow - *BMO Capital Markets - Analyst*

I hope you think this question is within the boundaries. But it goes to Eric's question before is if you were to find an RMP and there were acquisition opportunities, where would you think your stock price would have been? And don't you think that would have created say call it 15% to 20% upside in your stock price if you found the right RMP out there?

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

First of all, I would ask you to tell what the stock price would be. I can't predict that. I think all I would say on the RMP, is we've always characterized it. That one was in the category of high return that's hard to pull off.

Wish-Bone is on the other end of the continuum of the bolt-on acquisition, very easy for us to pull off and integrate. So there's a continuum of potential M&A to speculate on that and then what the impact of the share price would be, would be really tough to figure out. And actually honestly I think you guys are probably in a better position to figure that out than even we are at this point.

Ken Zaslow - *BMO Capital Markets - Analyst*

Was their lack of opportunities out there that you thought of? I'm in your camp and then we ask you (inaudible), but some in your camp that there were -- there are a lot of acquisitive opportunities out there. Did you find things dried up a little bit?

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

No, I would tell you we were active in the M&A business right up until we received the unsolicited offer. So what I talked about at the CAGNY luncheon and what we talked about here, I think is in fact true. And we were very active in that space.

Ken Zaslow - *BMO Capital Markets - Analyst*

Okay. And then my other question is, you talk about all these opportunities. From Andrew's question to I think Rob's question. But you didn't give a timeframe to which one would be able to execute on these type of opportunities if, hypothetically, they were to come about. Can you talk about how quickly you would be able to execute the synergies in the Frozen category as well as move categories into other middle of the store -- center of the store categories? How long does that take?

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

Totally dependent on the size of the deal and the transaction, how complementary it is to existing manufacturing capabilities and distribution. When we acquired Birds Eye, that was really very synergistic for us, and I don't just mean it from the cost standpoint, I just mean in the way the businesses were run. And we were able to identify and access a big chunk of those synergies within six months.

But then I would remind you that -- and we exceeded our initial projections on synergies. But then I would remind you we then found additional savings by consolidating plants into our second and third year of operating that business and we were able to incorporate that into our MVP program, which helped drive our productivity up to the high end of our 3% to 4% target range.

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So there are immediate synergies which you can typically get very quickly and those fall in the SG&A procurement area. Depending on the construct of the logistics network and the manufacturing system you can get some of those quickly. And then you've got good buckets that are to come in the areas of plant consolidations and some other game changers that you might contemplate and they take longer.

So I can't give you a rule of thumb, it's completely dependent on the deal.

Ken Zaslow - *BMO Capital Markets - Analyst*

Okay, great, I appreciate it.

Operator

Jason English, Goldman Sachs.

Jason English - *Goldman Sachs - Analyst*

We missed you at our conference yesterday and it sounds like next year may not be possible. Question for you on your business, and I'm almost embarrassed to say don't know this or maybe I've just forgotten. But can you remind us on what percentage of your sales go through your own direct sales force versus a third party broker? And also similar on logistics, what percentage of your sales are running on your own trucks versus a third party distributor?

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

Absolutely. I'll do the sales piece and Craig will talk about logistics. We use Acosta as our broker. There've been a tremendous partner of ours and have really done great things for our business.

We use Acosta for 100% of our retail execution. And we have our direct people responsible for sales slightly over 50% of our headquarter sales. So that means Acosta is still responsible at the headquarter level for slightly less than 50% of our sales.

In addition to making the transition successfully in 2013 and really enjoying the benefits of that, we were able to bring in-house a number of capabilities that didn't exist before. So we always talk about the headquarter representation, but there are a number of really good people behind this headquarter representation arming them with data and presentations and category stories and pricing strategy.

So when we built capabilities in category management, shop or marketing, pricing, trade analytics, et cetera, that were part of that initial move that we didn't talk a lot about that, but it was really important. And so that's part of why we feel so good about the sales organization we have today.

I'll anticipate a question because typically it gets asked, which is would you consider adding more customers direct? Maybe. It really depends on two things. Do the customers want us to do that, and many of them do. But is there enough of a partnership with that customer that it warrants that additional investment? And that's something that's an ongoing conversation.

But I could tell you that the construct we have right now, we're really happy with what we're doing as a dedicated team and we're really happy with the partnership we have with Acosta. Craig, you want to talk about the logistics side?

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Craig Steeneck - *Pinnacle Foods Inc. - CFO*

Morning, Jason. Our philosophy has always been we own our manufacturing sites. So all but one of our manufacturing sites are owned by us. The entire logistics network is 3PO, third-party logistics managed.

So all of our warehouses, we don't own. They're owned by 3PO operators and we don't own any of our own trucks or fleet. So those are also -- we manage them, but they're operated by third parties. So the entire logistics network is 3PO provided.

Jason English - *Goldman Sachs - Analyst*

That's helpful, thank you for that. And yesterday, I was talking to somebody who operates in the industry, or consults in the industry. And he was mentioning about lots of changes in terms of routes and markets and the selling organization that were lead by Chris Boever, that allows you to free up some cost to reinvest, to get more shelf space, get more market share, some of the stuff that's fueling your success in market today. Can you elaborate more on those details?

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

Sure. Look, Chris, well thank you for the shout out there. Chris has been a tremendous addition to the team. He's been on board for about 2.5 years or so.

And part of his vision in coming on board was to transform the sales organization. And I remember having conversations with him before he started, the big piece was improving our reputation and partnership with key retail partners. And Chris is really skilled and passionate in that area and saw tremendous opportunity in doing that.

And so what you're seeing is, again, armed with a lot of data provided by our category teams and our marketing teams to talk about the opportunity in retail. And by the way, we talk about share growth. Retailers don't care about share growth, they just care about category growth. And so when we talk to them, we're trying to show how our innovations are bringing new users into the category, or at minimum helping them with their profit mix in a very slow growth environment.

And Chris, that's his area of passion and he's been upgrading his organization and training people and giving them the ammunition to go out there and have a more robust story. And he also, I think, has done a nice job with our whole leadership team in being not only consumer focused, but very customer focused.

And that cuts across not only how you talk to customers, but is your customer service level good. Do you deliver products on time, it's your billing right. Nobody ever talks about that stuff, but it's critical in building that relationship. So we couldn't be happier with the performance of our sales organization and Chris's leadership has been terrific

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Jason English - *Goldman Sachs - Analyst*

Great. Thanks a lot, guys. I'll pass it down.

Operator

Bryan Spillane, Bank of America.

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Bryan Spillane - *BofA Merrill Lynch - Analyst*

Bob, I had a question and it ties back to the M&A question, to the M&A team, your perspective on public versus private companies. If we -- with Heinz being a private company now and there being some thought that you might see more LBO private type transactions, if that were to go, if that were to become more of a factor in the industry, is there anything from your perspective having done both, that make one versus the other being advantageous? So is there some advantage to being a private company versus being a public company?

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

Yes, (inaudible) because I've worked in public companies and private companies, both private equity-owned and private family-owned and they're all very different. And you could probably -- I can probably do an article on it some point when I retire.

But there are pros and cons to both and I won't list all the pros and cons. But what I will say, is the one opportunity of being a private company, is you can be more aggressive in taking action to fix things or to drive opportunity without worrying about the short-term impact. I think that's the real attractiveness.

If a company meets or realize an opportunity faster or needs to be, quote, fixed, let's be honest it's easier to do it in a private situation than it is when you have to balance out all the quarterly expectations. I think that Pinnacle is a great example of that.

Under Blackstone's ownership, I said it before, they never paid themselves a dividend, they never sold a share up until the secondary offering last year and they did it very reluctantly. And we invested everything back in this business.

We were able to take a business that needed work and turn it into something great. And that's why when we were ready to go public, we were able to deliver really great performance.

I don't know -- obviously I don't know what's happening in Heinz and you guys have more insight in that than I. But I think that that's the way to think about private is I don't necessarily believe it's a long-term advantage condition. Maybe it is in some cases if it's family ownership and they plan on holding it forever.

But it presents its own problems in terms of how do you incent management, how do you provide an ownership mentality. But I think that private has an opportunity to accelerate the performance of a company before its in the public eye again, is a really good thing.

Jason English - *Goldman Sachs - Analyst*

Thank you.

Operator

Eric Larson, CL King.

Eric Larson - *CL King & Associates - Analyst*

I promise I won't ask an M&A question.

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

Thank you.

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Eric Larson - *CL King & Associates - Analyst*

I think we've beaten that one to death. Mine is a little bit more boring, and you may have talked a little bit about this in the quarter. The innovation, and you talked in the -- when you released your fourth-quarter earnings, Bob, about things like Recipe Ready and what you expected where the ACV distribution for the year on that, and incremental sales, can you give us a little update on some of the performance of your innovation in the quarter? I think we're seeing it in the numbers, but could you give us a little more detail on some of that?

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

Sure, I think innovation -- and by the way, the way we look at innovation is on a three-year rolling cycle. So we talked about our renewal rate, because I don't believe that innovation is a one and done mindset. Because it's easy to get initial distribution and shipments, but what really matters is do the consumers buy it and repeat purchase? And then continue to drive the business over time.

So as you know, our renewal rate went from about 5% or so pre-Birds Eye to about 9% to 10%, let's call it 8.5% to 10% in the post Birds Eye world. It's a big driver, not only of growth, but it's a big driver of our profit mix because all of our innovation is margin accretive.

We've got a whole mix of a portfolio of innovations. Some are line extensions and you got to do that. And it's really easy to say look how big they are, but it's much harder to show how incremental they are.

We've also mixed in what I would call new platform. So I think Farmer's Garden from Vlasic is a new platform. Recipe Ready is a new platform. Decadent is a new platform for Duncan Hines.

They tend to take slower to get up and running because it's a new behavior for the consumer and you have to continue to invest in them and drive it. But when they work, they're really incremental not only to your business but typically to the category.

So decadent has been around longer, that's probably a good one to take a look at, it's about 4% share of the market. Highly profitable for us, good for the retailer, completely incremental.

Farmer's Garden would be next. Farmer's Garden is about a little over 2% share. Same comments on that. And Recipe Ready is about a 1% share, it's the newest of our items.

The most important metric that we look at is how strong is the repeat rate? Because if you have high trial and no repeat, you have a flash in the pan. If you have high repeat than that means you should continue to invest in trial.

And I will tell you the reason that we have the fortitude to stick with all these businesses is because all three of these, I'm just using example, have incredible repeat rates. So we just keep investing in marketing. And it's a slow and steady build.

We don't have the budgets to go out and -- we're not going to be doing a Super Bowl ad on Recipe Ready, I'm sure you'll be disappointed by that. But it will continue to build and we know that it sticks once the consumer tries it. We did television advertising for Recipe Ready for the first time in the first quarter, we'll continue that.

We've been dialing up our Decadent line on Duncan Hines doing a lot of online marketing, which is really the place for that, and increasing a lot of displayables particularly in the form of limited editions, we get consumers excited. And then Farmer's Garden we had advertising that continues on that one, we continue to build trial.

So that's -- hopefully that answered your questions, the way we look at innovation. I forgot to mention one thing in -- I think in the script and I'll say it now, is Wish-Bone advertising also starts this month. And if you recall, it had been really dormant with regard to advertising for a long period of time.

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And part of our acquisition feat is to restore advertising to Wish-Bone and we're doing that this month. And we'll be really interested in seeing what happens there because there's really only one competitor in the dressing category that's been consistently advertising, and we want to make sure that we're in that list. But hopefully that addresses your question.

Eric Larson - *CL King & Associates - Analyst*

Yes, it does. One follow up, you mentioned that Recipe Ready was about 80% incremental sales to the franchise at the end of the fourth quarter. Are you still finding that that's the incremental sales rate for Recipe Ready?

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

The incrementality of it is not only very high for the Birds Eye brand, it's really high for the frozen vegetable category. It's bringing in a new behavior. There's nothing really like it in the frozen section. You have to either buy multiple bags of frozen and combine them yourself, which people weren't doing, or you'd have to buy fresh, chop it up yourself and then you end up with a lot of waste because you need varying quantities for different recipes.

So this is like Farmer's Garden. This is why we stick with these innovation because they're slow to build. Whenever you establish a new behavior it takes time. But they're sticky and they're incremental because of what we just talked about there. So yes, we continue to see high repeat rates and we continue to see high incrementality.

Eric Larson - *CL King & Associates - Analyst*

All right, well thank you and congratulations, everyone.

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

Thanks, Eric.

Operator

Thank you. That concludes the Q&A session, I'd like to turn the call back over to Management for any further remarks.

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

Thank you, everyone, for your participation on today's call. As usual, I'll be around all day today to take any questions that you may have, so don't hesitate to reach out.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This concludes today's program, you may all disconnect. Everyone, have a great day.

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