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PRESENTATION

Operator

Good morning, ladies and gentlemen, and thank you for standing by. Welcome to the Pinnacle Foods, Inc. earnings call for the second quarter ended June 29, 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, IR & Communications*

Thank you, Danielle. 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 money we issued our press release for the second quarter of 2014. If you have not received a copy, you can get one on our website at www.pinnaclefoods.com.

As you know, a lot has transpired since our call last quarter. At that time, we had just announced the signing of a definitive merger agreement with Hillshire Brands. However, six weeks later in June 30 we announced that we exercised our right to terminate the agreement.

As a result, Pinnacle received a termination fee of $163 million from Tyson Foods on behalf of Hillshire that we used, along with cash on hand, to reduce debt by $200 million in early Q3. Craig will take you through the details of this and how it benefits our financials a little later.

In addition, last week we announced that our Board authorized a 12% increase in our quarterly dividend to $0.235 per share, effective with our upcoming third-quarter dividend payable in October. This increase brings our annualized dividend to $0.94 per share and our payout ratio to approximately 50% of net earnings, an objective we have maintained since our IPO.

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 that our 2013 IPO and subsequent refinancings occurred on the first day of fiscal 2012 -- I'm sorry, 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 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, 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 would like to remind you that our discussion this morning may include forward-looking statements which are subject to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements are subject to a number of risks and uncertainties that could cause actual results to differ materially and the Company undertakes no obligation to update these statements based upon subsequent events. A detailed discussion of these risks and uncertainties is contained in the Company's filings with the SEC.

With that, I will hand it over to Bob.

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

Thanks, Maria, and thanks to everyone for joining us today. After the interesting events of the past quarter that Maria just referenced, it is a pleasure to be fully focused on realizing the opportunities we have in front of us at Pinnacle.

Our business model has proven to be quite resilient in the face of increasingly difficult industry dynamics. While we are not immune to the challenges, we continue to execute well, driving volume and market share growth as well as improved product mix and strong productivity. I believe we are striking the right balance between investing in our brands, remaining price competitive at retail, and delivering strong earnings growth using all the levers available to us to do so.

As you know, the benefits of strategic accretive acquisitions is clearly evident in this environment and the addition of Wish-Bone continues to be an important contributor to our performance. We are also continuing to focus on cash flow and capital allocation to maximize shareholder returns in a low-growth environment. In the latest period we have accelerated debt reduction, which enables us to achieve a step down in interest rates. More on that from Craig shortly.

Finally, given our results through the first half and our outlook for the balance of the year, we remain on track to achieve EPS growth of 12% to 15% for the year translating into a range of $1.70 to $1.75, consistent with our guidance set in early March.

Now turning to the second quarter, starting with the top line. We grew consolidated net sales by approximately 9% due to the benefit of Wish-Bone and higher volume mix on the business, which included the benefit of Easter partially offset by lower net pricing. We again grew our composite market share with consumption up in excess of 2% in categories that declined. We held or grew share in 8 of 13 categories, with growth focused in many of our largest businesses, namely Birds Eye and Birds Eye Voila!, Mrs. Paul's and Van de Kamp's, Hungry-Man, Duncan Hines, and Armour.

Wish-Bone's share was down for the quarter as expected as the business continued to cycle the heavy year-ago promotional activity prior to our acquisition of the business. We indicated previously that we expected performance to begin to improve in the second half of this year and early results from July bear this out.

Turning to margin, we expanded our adjusted gross margin by 70 basis points, driven primarily by the addition of Wish-Bone, improved product mix, and productivity, partially offset by inflation and lower net pricing. Our operating expenses in the quarter increased less than 3% despite a double-digit increase in consumer marketing investment as we continued to aggressively control our SG&A overhead and other expenses. As a result, EBIT advanced 21% in the quarter.

Interest expense of $24.5 million was in line with our expectations and reflected the impact of the debt we assumed with the Wish-Bone acquisition. Our tax rate of 38.1% was favorable versus year ago. The combination of all of these factors enabled us to deliver adjusted diluted EPS of $0.33 compared to $0.27 in the year-ago period.

Before turning to a discussion of our segments, I want to spend a moment on cash flow. As you know, industry-leading cash flow generation is a hallmark of Pinnacle and we delivered very strong results in this area during the quarter. Craig will take you through all of the details, but it is important to note that this level of cash flow provides us with significant optionality to drive shareholder value.

As we have previously discussed with you, our 2014 priorities for cash flow are, first, debt reduction, which we recently did in early Q3. This enables a reduction in interest payments and increases our capacity for accretive M&A reinvesting in the business to drive margin expansion, such as taking Wish-Bone and Duncan Hines manufacturing in-house, and increasing our quarterly dividend to achieve our targeted payout ratio of 50% of net earnings, which we just announced last week.

Let me turn to our divisions. Birds Eye Frozen division revenue was up approximately 1%, with strong volume mix performance largely offset by lower net pricing. Both the volume and pricing performance reflected in part the impact of Easter and the planned trade investments made during the quarter. Importantly, Birds Eye vegetables and Birds Eye Voila! both registered net sales and market share growth in the quarter as well as improved distribution.

Our foundation brand portfolio was down for the quarter due to softness on frozen pizza and frozen breakfast, while Hungry-Man was even with year ago. Our frozen portfolio significantly outpaced the performance of our categories and grew composite market share by 60 basis points, due to our 3% increase in consumption in the quarter compared to composite categories that declined. All of our frozen leadership brands registered share growth in the quarter.

EBIT for the division declined 5% as the pacing of productivity in the quarter was more than offset by inflation and promotion investment. EBIT performance is expected to improve in the second half as the relationship between productivity and input cost improves.

From an innovation perspective, we introduced a kale variety to our Birds Eye Steamfresh line and three new varieties to Birds Eye Steamfresh Chef's Favorites. We also continued the expansion of our Birds Eye Voila! Family Size line. Birds Eye Voila! currently has a market share of 31.6%, which is double the share it had when we acquired the business in 2009.

Our Duncan Hines Grocery division posted another quarter of strong top-line growth, largely driven by the benefit of Wish-Bone as well as the strength of Duncan Hines and Vlasic, due in part to Easter timing. On the other hand, sales for our Canadian business and our foundation brand portfolio declined.

In terms of market share, our grocery division also outpaced the performance of our categories. Composite market share grew 20 basis points due to a 1% increase in consumption in the quarter. Shares advanced for Duncan Hines and Armour brands, while [syrup held].

EBIT for the division was up 43%, largely reflecting the benefit of Wish-Bone, while favorable pacing of productivity savings versus inflation was partially offset by increased consumer marketing for the leadership brands.

During the quarter we continued to expand our Duncan Hines Decadent line with the introductions of Decadent Black & White Cupcakes, and Duncan Hines Limited Edition Summer Velvets. Decadent continues to expand household penetration and buying rate among consumers and its market share of the baking mix category has grown to almost 5%.

For Vlasic, sales were up in the quarter and we had good consumption around the Easter holiday, although share for Q2 was down slightly. We just launched a new line of Vlasic bold and spicy pickles and we will have more detail on this on our Q3 call.

Turning to Wish-Bone, the business continues to track with our expectations, including our planned timing for the start up of internal manufacturing at the end of the first quarter of 2015. Our new integrated print shopper marketing and social media campaign launched late last quarter, leveraging Wish-Bone's heritage and leading share position in Italian dressing.

Our Specialty Foods division, which includes our private-label, food service, and snack businesses, posted a 5% decline in sales for the quarter as growth from our snacks business and the benefit of Wish-Bone food service was offset by lower sales of private-label canned meat. Despite the sales declines, specialty EBIT advanced 25% in the quarter.

And with that, I will hand it over to Craig to take you through the financial details of the quarter.

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

Thanks, Bob, and good morning, everyone. Starting with sales, our consolidated net sales increased 8.6% in the second quarter to $617.8 million, largely driven by the benefit of Wish-Bone and higher sales of our leadership brands, partially offset by lower sales of our foundation brands. The later Easter holiday benefited the net sales comparison by approximately 1.5 growth points, reflecting a heavier promotional environment in Q2.

North American retail sales advanced 11%, reflecting an 11.2% benefit from Wish-Bone and higher volume mix of 3.2% on the base business. Partially offsetting this growth were lower net pricing of 3.2%, driven by Easter-related promotional activity and trade investments, as well as unfavorable foreign currency translation of 0.2%.

For our Frozen division, net sales increased 0.9%, driven by a 5% increase from volume mix, partially offset by lower net pricing of 4.1%. As Bob mentioned earlier, we made a number of planned trade investments during the quarter behind Birds Eye and Birds Eye Voila! to strengthen our presence at retail. And these investments helped to drive growth in net sales for both of these leadership brands.

During the quarter, given the run up in protein costs, we took price on three Birds Eye Voila! items containing shrimp and a Hungry-Man turkey item to bring it to parity with our new selects pricing tier. For our Duncan Hines division, net sales advanced 21.4% due to a 22.6% benefit from Wish-Bone and higher volume mix of 1.3% on the base business. Partially offsetting these drivers were lower net pricing of 2% and unfavorable foreign currency translation of 0.5%.

Growth in our leadership brand portfolio, in particular Wish-Bone, Duncan Hines, and Vlasic, was partially offset by declines in our foundation brands and Canadian business. Finally, for our Specialty Food segment, net sales were down approximately 5% in the quarter, driven by lower volume mix of 4.6% and lower net pricing of 1.7%, partially offset by a 1% benefit from the Wish-Bone food service business.

For the base business, growth in snacks was more than offset by lower sales of private-label canned meat. Despite the decline in sales, specialty EBIT increased an impressive 25% in the quarter due to productivity, lower commodity prices, and favorable mix. For the second half of this year, we are continuing to expect strong profit performance.

Turning to gross profit, we expanded our adjusted gross margin by 70 basis points to 26.6%, driven by productivity savings and favorable mix partially offset by lower net pricing and inflation. Inflation in the quarter totaled approximately 1% while productivity totaled about 3%.

For the full year we continue to expect inflation of approximately 2%. Our productivity outlook remains at 3% to 4% of comps with a good planning assumption for the year at the 3.5% midpoint as previously discussed.

Adjusted EBITDA advanced 17.5% to $105.9 million in the quarter, reflecting the growth in net sales, gross margin expansion of 70 basis points, and lower administrative expenses partially offset by a higher consumer marketing investment. Interest expense for the quarter on an adjusted pro forma basis increased 24% to $24.5 million, driven by the debt we incurred from the Wish-Bone acquisition.

The effective tax rate for the quarter was 38.1% compared to 39.5% in the prior year driven by a benefit in the current quarter from a change in state tax legislation. Given this benefit, as well as the benefit we recorded in Q1, we now expect our full-year effective tax rate to come in slightly below our original expectation of 38.9%. For the second half our effective tax rate outlook remains at approximately 39%.

Adjusted pro forma net earnings advanced by 23% to $38.3 million, or $0.33 per diluted share, in the quarter compared to $31.2 million, or $0.27 per diluted share, in 2013. In terms of our outlook for the year, we continue to expect adjusted diluted EPS in the range of $1.70 to $1.75 or growth of 12% to 15% versus year ago.

Now turning to cash flow, cash flow from operations advanced significantly in the second quarter to $93 million compared to $44 million in the year-ago period. This strong performance was driven by growth in pretax earnings and improvement in working capital.

Capital expenditures in the quarter totaled $33.8 million compared to $25.6 million in the second quarter of 2013. For the year, we continue to expect CapEx in the range of $120 million to $130 million, including approximately $50 million for Wish-Bone and $5 million for CapEx associated with the Duncan Hines manufacturing facility in Centralia, Illinois, that we purchased in early Q2.

Turning to liquidity, at quarter end total debt was $2.5 billion, including $2.1 billion in term loans and $350 million in 4 7/8% senior notes. We had no outstanding revolver borrowings during the quarter.

Cash at the end of the quarter totaled $171 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.

At this point, before turning the call back to Bob, I want to discuss the $163 million termination fee, how we used it, and how the related impacts on our financial results this year and next. At the beginning of the third quarter, we received the $163 million merger termination fee. One-time fees and expenses associated with the merger are now expected to total approximately $20 million versus our original expectation of $25 million. About $14 million of the fees are expected to be cash with the balance in non-cash.

The vast majority of the termination fee translates into after-tax benefit as we expect to pay minimal cash taxes on it due to utilizing a portion of our sizable NOL balance. Importantly, we expect to pay only modest cash taxes in 2015, but continue to expect to become a full cash taxpayer in 2016. At that point in time we expect our 2016 effective tax rate to decline by about 2 percentage points due to qualifying for the domestic manufacturing deduction, which was not available to us when we were fully shielding our federal taxable income with NOLs.

In addition, we used the fee in concert with cash on hand to reduce debt by $200 million in early Q3. The annualized interest savings associated with this debt pay down approximates $6 million and the benefit in 2014 will total about $3 million, which we plan to reinvest back into the business.

In terms of the quarterly impact, we expect interest expense in Q3 to approximate $25 million, falling to $22 million to $23 million in Q4. Finally, due to the debt pay down and our anticipated ongoing strong cash flow, we now expect our net leverage ratio at the end of the third quarter to fall below the 4.25 times threshold that will trigger a 25 basis point reduction in the interest rate on our term loans.

However, the leverage test is based on filed financials, which for us will be mid-November. Therefore, interest savings associated with this anticipated step down will be minimal in 2014, giving us only a benefit for six weeks. However, the annual interest benefit in 2015 associated with the step down would be approximately $5 million. Combined with the benefit of the $200 million debt pay down in early Q3, interest expense in 2015 will decline in excess of $10 million from the current run rate.

With that, I will turn the call back to Bob before taking questions.

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

This morning we covered a lot of information beyond the usual quarterly report, so I thought it might be helpful for me to provide a quick summary before opening it up to your questions. Our business model has proven to be resilient in what continues to be a challenging industry environment.

We are pleased that we have been able to gain market share, expand gross margin, and drive double-digit EPS growth. We believe we are striking the right balance between investing in our brands, remaining price competitive, and delivering strong earnings growth. We are also continuing to convert earnings into cash flow at industry-leading levels and we are using all available levers to drive value for our shareholders. As a result, we are holding our guidance for the year.

We recognize the value of accretive M&A, particularly in this environment, and we view strategic acquisitions as a catalyst to accelerate our growth. Reducing debt, as we have just done, provides us with interest savings and keeps our powder dry in what remains an attractive interest rate environment should the right deal materialize.

With that, let's open it up to your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Bryan Spillane, Bank of America.

Bryan Spillane - *BofA Merrill Lynch - Analyst*

Good morning, just two questions related to the promotional environment or just promotion activity in the second quarter and I guess maybe looking forward. One, and I think you alluded to this in the press release, if you could just try to quantify or give us some concept of just how much of the promotion in the quarter was really holiday-related and how much might've been outside the holiday.

And then second question related is just, as we look forward to other holiday periods, is what happened at Easter sort of a sign that maybe retailers, at least right now in the near term, are looking to be more promotional around holiday periods, maybe to attract traffic or gain market share?

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

Sure, from an Easter standpoint, we talked about what we thought the impact of Easter was on Q1 given its timing into Q2 on our last call. I think what we found is from a volume standpoint Easter came in around what we expected it to be, but pricing was certainly more aggressive than we had forecasted, which is really the evidence of the promotional intensity that you are referencing.

I think that has actually continued beyond Easter, although it was more intense at Easter. We are seeing more price competition than before. And I believe that's really expected, because as we've seen in some previous years, when there is a week first quarter -- and think about how weak the first quarter was, not just for the food industry but for the economy in total -- it puts a lot of pressure on manufacturers and retailers to try to recapture that in the balance, the following quarters.

And the fastest tool to use is promotions. And so we are seeing both manufacturers and retailers move to that tool very, very rapidly.

I think our expectation, our planning assumption is that we are going to continue to see more of the same going forward, both on an everyday basis as well as at the holidays. And that is what is built into our assumptions as we look towards the second half.

Bryan Spillane - *BofA Merrill Lynch - Analyst*

Okay, thank you.

Operator

David Palmer, RBC Capital Markets.

David Palmer - *RBC Capital Markets - Analyst*

Good morning. Just a follow-up to Bryan's question there. It was a particularly dramatic swing there, not just in Birds Eye but across the business, for volume versus price. Would it be similar to what we are seeing in Nielsen, your reported results for, say, the second half in terms of a more muted pricing and volume in terms of complexion of your top line?

You know, you are saying that there is going to be a way on price, but I'm just trying to get a sense of the magnitude versus what we saw in the second quarter.

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

Dave, it's a good question. I think the second quarter is probably more significant because of the Easter effect and the fact that we shipped some of that volume in, a little bit of that in the first quarter, and then all the promotion gets charged to the sales in the second quarter. So it has a bit of a disproportionate effect, but I think, again, it's safe to say you guys are looking at the same numbers that we are in IRI and Nielsen and you are seeing a bit more promotional intensity.

So even if you back out what I think was more severe around Easter, you are seeing just a general level of pricing get dialed up. Again, it is a reaction to just overall weak growth across the economy and across the industry.

David Palmer - *RBC Capital Markets - Analyst*

Just looking back on that Hillshire saga, what did you learn from that? As a Company, you had a near-miss. No doubt looked harder at your own business. Perhaps you also had some distraction, but what did you sort of take from that as you look back, both positives and potential negatives?

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

Yes, I think -- let me just go back and talk a little bit about the impact on our business and, as you referred to, the impact of distraction. And then I will talk about what the lessons learned are. Just to reiterate, and we talked to you about it before, this was a completely unsolicited and unexpected offer so it caught all of us by surprise. And, of course, it was a distraction.

I think some of the good news in that is it began and it ended within six weeks, and we haven't lost any key executives as a result of that. So while it's great that it only lasted six weeks, in this environment I don't want six hours of distraction, let alone six weeks of distraction. So I think it's a really good indication of how solid our team is that we have been able to rally and deliver strong performance.

If we lost any momentum, it was really where we interfaced with the outside world, so that would be in customer planning because customers weren't sure for that period of time exactly who they were going to be dealing with in the back half of the year, a little bit in the world of productivity where we work with some extra partners on that for the same reason, and then also on M&A, where we lost some six weeks of some momentum that we had there.

Look, I think the good news is we are fighting really hard to regain any lost ground. And the fact that we are able to weather this storm in the second quarter, which has been really tough, and be able to deliver the results we did, I think is a good sign as well as the fact that we are holding on to our guidance for the year.

The positive thing is we have taken that $163 million and we put it to really good use. We talked about the debt reduction and the impact on accelerating our interest rate step down. And we also used part of it as a retention incentive and performance incentive for all of our employees, not just our top executives.

So I think that gives you an update on where we are. The lessons learned on this it goes right back to the conversation that we had I believe it was at the CAGNY lunch, and I know you were there, where we talked about the environment is ripe for consolidation in the food industry.

A combination of lack of growth, relatively low-cost financing, no easy answer to where you go next; emerging markets aren't delivering the performance they once did. Even some of the specialty retailers are soft on their performance, so it's not such an easy answer. Then when you get right down to it and you see pressure from activists on some other companies, consolidation makes a ton of sense.

I think what surprised us is that we felt we were going to be the consolidators and that's why it was unexpected. We will go back on that front and continue to be consolidators.

I think the lesson learned internally, and we've had a lot of discussion here, we like the business model that we have created. We like the culture and the environment of this company. We've just got to keep dialing up the speed and continue the aggressive posture that we take on costs, on innovation, as well as M&A. And I think that was the take away from all of us.

David Palmer - *RBC Capital Markets - Analyst*

Thank you.

Operator

Eric Katzman, Deutsche Bank.

Eric Katzman - *Deutsche Bank - Analyst*

Thanks, good morning. Welcome back. I guess so just maybe a couple of questions for Craig first. You mentioned -- so you are now anticipating in 2016 that the tax rate is going to drop by 2 points?

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

That's correct.

Eric Katzman - *Deutsche Bank - Analyst*

Okay. Second, Craig, maybe you could just talk about -- I realize the inflation is pretty benign and you have a pretty diversified mix of inputs. Can you go in a little more detail as to kind of what you are seeing out there, whether it's raw materials versus energy versus packaging and kind of how those are all coalescing around 1% to 2%?

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

Sure. First of all, Eric, in our previous guidance we said that productivity would be less in the first half, more in the second half. We continue to see that being the case. We have about 3% productivity for the first six months and expect 4% in the back half. That's just kind of the timing of the flow through the P&L.

We also said that inflation would be heavier in the first half than the second half and that it would average the 2% that we've given in guidance. And, again, we still feel that to be the case.

When you decompose our market basket, places that we are seeing deflation, which is similar to what everyone is seeing when you look at all the USDA reports, grains, particularly wheat and corn, and soy oil are clearly deflationary for us, as is sugar and cocoa, which is a big benefit to the Duncan Hines brand. Our all-in vegetable portfolio, that's broccoli, cauliflower, plus everything that we make internally, that's roundabout even. Very kind of low deflation.

Where we are seeing inflation is more on the packaging side linked to energy, as you talked about, warehouse and transportation where capacity in the trucking industry is constrained and fuel prices are driving up some inflation. Clearly -- and a little bit in wages and benefits relative to our manufacturing sites. But all of that basket is very low single-digit inflation.

The area in our portfolio, which fortunately for us is a very small component, is proteins. And protein costs are certainly the highest inflation we have in our portfolio. The inflation is concentrated in beef, a little bit less so in chicken and pork, and that we are keeping a very close eye on.

Clearly, it has been higher in Q2 and will migrate into Q3. As a result of that, as we talked about, we've taken some pricing actions to be able to offset on shrimp and on turkey and we have announced price increases in our third quarter in our Canadian business and our Armour canned meet business to be able to offset some of that high-protein inflation.

Eric Katzman - *Deutsche Bank - Analyst*

Thanks for that. Bob, if I can -- just not so much about M&A, because obviously it's kind of more discreet, but just in terms of the industry, what gets the industry out of this real difficulty of disappointing volume, more promotion -- disappointing volume, more promotion? It seems like the bigger players are just struggling to come up with new products that are appealing and when those fail they go back to the easy method of just promoting more.

So what do you see, having been around the industry for a while? What do you see as kind of an answer to such a tough situation?

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

Sure. Let me give it to you in sort of multiple time frames, because I think there's a variety of answers depending on the timeframe you are looking at.

I think longer term, and it's hard to define what that is, we need to see improvement in the economy. The way I define improvement in the economy is that the average American period is earning more money in real dollars. And when you take a look at that metric of the average American household which drives a disproportionate amount of the food sales because they are preparing food at home, etc., their real earnings continue to be depressed and not moving very much at all.

When we look at numbers like the unemployment number, what we really look at is income, hours worked, and how are people feeling. You see all of those metrics still continue to be incredibly weak now going on five years. When that turns around, the great majority of these problems will be solved.

But none of us can sit around and wait for that to happen. As we have talked about in previous calls, we made a shift a couple years ago in our planning to assume that it didn't get better, that we lowered our top-line expectations and put pressure on other areas of the business model to still deliver the EPS growth.

I think in the medium term -- if that's the long term, I think the medium term is consolidation is clearly an answer here. We know that the right acquisitions that generate synergies and efficiency can really cover up for a lot of the volume (technical difficulty) for a much more efficient operating model for the industry in total. There are a variety of reasons which we can talk about why that hasn't happened faster, although it has happened at a faster pace in 2014 than it has in recent years.

I think the last part is the very short term is you are left with if I've got to make this quarter or this next six months, people are leaning on promotion very much because there's a delayed reaction to any marketing. I think innovation is really -- is an important part of this discussion. Because as we have talked about, while we would like to believe that the innovation that we introduce adds new consumers and expands our business, we are looking at this industry right now as very much a zero-sum game. We're not seeing growth in total.

So what we have made sure that we do when we look at innovation is that all of it is margin accretive so that if it delivers incremental growth, terrific. Even if it doesn't, it still helps expand our gross margin. And that is the balance that we struck, I think, in the first six months of this year is we have to be price competitive, otherwise we start losing market share. And we know what happens in that situation.

We know that we don't like doing that, so we are very targeted in where we have to do it. We add money in for consumer marketing where it makes a lot of sense and then we target our innovation to be margin accretive. I think it's the combination of all of those that delivers good results.

So apologies for the long answer, but it's obviously something we spend a lot of time thinking about and I know you do as well.

Eric Katzman - *Deutsche Bank - Analyst*

Okay, thanks. I'll pass it on.

Operator

Ken Zaslow, Bank of Montreal.

Ken Zaslow - *BMO Capital Markets - Analyst*

Good morning, everyone. Welcome back as well. I guess my question is you have said a couple times that's it's ripe for consolidation, that the industry is ripe for consolidation and you guys now have a better balance sheet out there.

When you look at the acquisition environment out there, do you see more assets available but at prices that you don't want to pay for them or do you see less assets available even though the price is right? How do you see the environment? Because it seems to me that people like you guys, who tend to be very disciplined, will have a harder time in this environment. Can you talk to that?

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

Look, I think the flow of potential assets, which it was on the increase and 2014 has continued at that pace. So there's more opportunities for us to have conversations and look at some assets.

Again, just something we always say, but it is really important, there are those assets the go up for sale and there are those that we are proactively trying to unlock. And that for us is the more attractive side, because we think that the right transaction could allow us to unlock something at a much greater scale in a tax-efficient way.

But I think that you bring up a really good point, which is the price of assets right now. One of the things that I have noticed in the last seven -- for the last seven sizable transactions that hav3 been done in the food industry in 2014, five of the seven are US-based public companies so you can look at the impact.

The acquirer's stock price was either flat or down upon announcement of the acquisition and that is quite a departure from what we've seen in the previous four or five years. What it says to me is that either the prices were too high or it wasn't great strategic fit.

So I think our discipline remains around is it the right strategic fit, which means does it make us a better company over the long term? And really forget about the headline multiple. What are the after-tax, after-synergy multiple that we get?

And that's what we stay really focused on. That's why we can pay good prices like we did for Wish-Bone but still deliver great benefits to the business.

Clearly, prices got heated up pretty quickly and you can see the reaction from investors. So I think, just as you are becoming a little more discerning on the acquisitions that some of the manufacturers are making, we are making sure that we stay disciplined as well.

Ken Zaslow - *BMO Capital Markets - Analyst*

And here is somewhat of a sensitive question I guess I will ask. When you were being acquired or thought to be acquired, one of the points that Hillshire made was that the sales opportunities in your businesses may be higher than what you actually initially thought. Can you talk about are there opportunities that maybe you might rework it to say maybe there are greater growth -- sales growth opportunities within your portfolio?

Just part of, again, the thesis that Hillshire had in terms of acquiring you was that your growth algorithm on the top line might be a little lighter than what they would expect it to be going forward. Can you talk about that?

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

What they were talking about -- and I don't number that reference exactly but you may have been involved in some communications meetings that I wasn't in with them.

I think what they were really talking about is taking our brands, for example, and expanding them into refrigerated, where they have capabilities that we don't have. And we were also talking about taking some of their brands into the shelf-stable world, where they don't have as much capability. And then co-promotion, co-merchandising, and even co-branding in some cases some of the frozen businesses into -- from components into full meals.

So it was really -- I think the point they were trying to make was the combination of these businesses and the expansion of brands into new territory would drive higher growth. Not that they could take this portfolio and grow it at a faster rate just buy them managing it. We would have strongly disagreed with that point if it was made. I think it's more the former that I just discussed.

Ken Zaslow - *BMO Capital Markets - Analyst*

Great. I appreciate it, thank you.

Operator

Robert Moskow, Credit Suisse.

Robert Moskow - *Credit Suisse - Analyst*

Thanks. Bob, the market share gains that you talked about -- I think you are gaining share in eight of 13 categories -- that's down a little bit from first quarter where you are gaining in 10 of 13. And maybe it's holding and gaining is your definition.

Given all the promotional spending that went into the quarter, are you satisfied with that? And are you concerned at all that the back half, that your competition may have to react to the fact that they were the ones losing share in the first half and now they want to come back more aggressively to get their share back?

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

We are always wary of the last point on a constant basis. I think that's part of the way that we manage the business is we are very happy when we are delivering good performance and we are very watchful about what kind of reaction others may put in front of us. So that last part is kind of an ongoing thing.

I think we are very satisfied with the share growth that we've gotten, not only in second quarter but year-to-date. When I look at the latest July numbers, the July numbers were even stronger. We grew share in nine out of 13 categories.

What it says to me is, although we are reluctantly having to match some of the promotion that's out there, the reason we are getting a good response for that. There is a lot of discussion I've seen about promotional efficiency or inefficiency. And, yes, the more that the industry promotes, the lower the efficiency is going to be. That is almost a given.

But we have been really, really focused on building internal capabilities about spending that money in a smarter way. One of the -- we have fairly sophisticated internal metrics, but when I look at the IRI merchandising effectiveness metric, which is available to you guys, you would see that merchandising effectiveness for our categories is down. We are down slightly but nowhere near where the categories are and I think that's why that spending is at least translating into share growth.

I think if we invested that money and didn't see this level of share growth we would be disappointed, but we are happy with the share growth that we are getting. We just wish the categories were growing faster, wish the industry was growing faster.

Robert Moskow - *Credit Suisse - Analyst*

That make sense. Maybe I can ask a follow-up. I think a year or two or two years ago the learning in the industry was that deals that were like 10 for $10 trying to drive a lot of volume weren't working and so a lot of players reduced the volume component of that. And then this year I heard a lot of companies talk about just that the space was very crowded. Everyone was trying to merchandise at once and so it just got very confusing, end-aisle displays.

Where do you think we are now? Is it just a lot of money and the deals are too deep? Is it the frequency? Is there a way to talk broadly about how that is evolving?

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

Sure. It might be helpful if I just give you a sense about how we plan our promotions. I think it will really shed light on certainly what's happening at Pinnacle, but I think by extension you could look at the industry as well.

We don't sit back and say, okay, we're going to dial up our promotion spending. We really manage everything at a much more micro level. We look at category by category, retailer by retailer and we have these discussions about what's it going to take to at minimum hold share in those intersections, if you want to look at it that way.

Because you don't fight this battle of 100,000 feet. You don't fight it at total retailer level. You really do it category by retailer and what happens is we plan our promotional activities accordingly. And as we have talked about before, the further you get out ahead and are planning for this, the better the quality of the promotion that you are going to secure.

It's when you come in at the last minute and try to cover for a shortfall in the last minute you will get the less desirable space, which is scary. But what happens is we plan these, as I said, these interceptions category by retailer. What is occurring in 2014 is those retailers that are more everyday low price focused and has been very aggressive on price point are the ones that are winning, and that would not be a problem if the other ones weren't declining.

The problem is it's a zero-sum game and what you are seeing is the mix of customers in which we are generating our sales has shifted towards those that are more promotional, which has the impact of driving our total promotional spending up. If that makes sense. And I believe that is happening for the industry in total.

So it is not that we, for sure, and I think most of our peers are not out there just indiscriminately spending money. I think they are planning and what is surprising them is the shift in customer mix going forward. Again, if the industry was growing at another 1 or 2 points higher growth, this would be a nonissue. It's the fact that it's complete substitution from one customer to another that is driving up the rate.

Does that make sense?

Robert Moskow - *Credit Suisse - Analyst*

I think it does. Thank you so much.

Operator

Farha Aslam, Stephens, Inc.

Farha Aslam - *Stephens Inc. - Analyst*

Hi, good morning. Could you talk about how you are managing your leadership brands versus your foundation brand in the current environment, and kind of how you are allocating marketing resources and what margins you are achieving on the (inaudible)?

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

Sure, the great majority of our consumer marketing spend is focused on our leadership brands. We spend very little from a consumer marketing standpoint on our foundation brand. When we think about innovation, we are targeted more towards renovation on the leadership brand versus true innovation on our leadership brands -- the foundation brands are renovation; the leadership brands are true innovation.

I will give you an example on foundation brands. Hungry-Man, we put new flavors out there. We've got some new flavors at a higher price point that I wouldn't put in the category of great innovation, but they deliver good profitability, good margin expansion, as well as allow us to maintain our market share in that position.

On Aunt Jemima, which is a foundation brand, we are transitioning to new resealable packaging, which is the first in the industry, and also upsizing the pack. So that's the kind of work that we do on the foundation brands to keep them whole.

Our margin, interestingly, has expanded across both. So while the relationship that leadership brands have a greater gross margin than foundation brands continues, and that's why we like to focus on leadership brands, the margins have grown on both, which is the benefit of productivity versus inflation which cuts across our entire portfolio.

Farha Aslam - *Stephens Inc. - Analyst*

Are you happy with kind of how your foundation brands are holding up in this current environment?

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

I think that we've got mixed results on our foundation brands. I think from a share standpoint, we've got some good success, and others not. We referenced in the quarter that our foundation brand portfolio was down. I think that's reflective of what's going on in the environment and the level of price competition in those categories.

So no, we will never be happy if we are losing share and we don't have positive growth. On a relative basis, it's all part of the mix of our business model that we drive to get to total EPS. So we will continue to address that.

Farha Aslam - *Stephens Inc. - Analyst*

Then in terms of growth on your leadership brands, overall historically you have targeted sort of 2% growth but it seems like you are getting better than that right now. On your leadership brands what would be your new sort of target level, or does it remain at sort of that 2% level?

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

No, I think our long-term target level remains the same. As you are pointing out, we got slightly more growth in our leadership brands than we would target long term and slightly less growth than we would target in our foundation brands.

So our outlook and the way that we manage the business hasn't shifted, but on a quarter-to-quarter basis, especially around when it gets a little bit distorted by a big holiday -- you see during Easter that Duncan Hines and Birds Eye, for example, are much stronger in Easter, so you are going to get a boost out of that. I think that's just a quarter-by-quarter fluctuation rather than a change.

Farha Aslam - *Stephens Inc. - Analyst*

Great, thank you.

Operator

Matthew Grainger, Morgan Stanley.

Matthew Grainger - *Morgan Stanley - Analyst*

Good morning, everyone. Bob, this could be, I guess, both an M&A question or an innovation question. You talked a few months ago at the CAGNY lunch about the importance of health and wellness and faster-growing categories and channels, the tie-in that that has to Birds Eye.

So outside of sort of the core momentum you have in terms of making vegetables more accessible to consumers, focusing on that from a marketing standpoint, how important of a strategic priority will this be for you? I guess can you talk about whether you have initiatives in place outside Birds Eye to focus on evolving the portfolio towards these consumer needs, or do you see yourself expanding over time into new categories to give you more exposure to those trends?

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

Let's step back and talk about Birds Eye. You are 100% right that pockets of growth in this zero-sum game in total are really around health and wellness, and that we see Birds Eye as being an opportunity to play an active role in that given that while there's a lot of debates over what is health and nutrition, nobody debates that eating more fruits and vegetables is important.

So we think we are in an advantaged role. And by the way, if you look at our year-to-date share position on Birds Eye, you would see that we are gaining very, very nicely.

So the way that we are going to attack that, as we talked about in CAGNY, given that we see this as such a mega brand in this space, is a combination of internal and external. And what you would expect to see is an accelerated innovation pipeline that will stretch us not only to more depth within our existing categories, but start to stretch us into new adjacent categories that deliver the same benefit.

And part of the way that we will be able to accelerate that could be through M&A and it would be less about buying a specific brand and renovating in that case. What it might be is buying a capability or smaller brand that we could either co-brand or rebrand Birds Eye to get into that space.

Our desire is not to launch multiple brands that all need support. That's really against what you would indicate for this industry, but rather use the umbrella of Birds Eye to be able to extend into new benefits all around delivering fruits and vegetables.

Matthew Grainger - *Morgan Stanley - Analyst*

Okay, that's helpful. Thanks. Just a quick follow-up on Wish-Bone.

You talked a little bit about the actions you've taken to rebalance marketing and promotional support. I guess can you just talk about where you stand today and whether you think you are at the right balance going forward, given what appears to be sort of an incrementally more promotional environment in that category?

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

Yes, so we had to really stay disciplined during the first six months because, as we ourselves new and we talked to you about, we expected share to be down in the first six months of the year because we were lapping some very serious promotions in advance of the business being sold to us. And that we expected that would reverse in July.

It's hard to sit there and watch that month by month and stay disciplined, and to your point, in a promotional environment not be tempted to just jump in there, but we didn't. And I would tell you that at least the first share period that we got for the month of July we are seeing positive share on Wish-Bone.

So I would say that we are certainly moving in the right direction. We are constantly calibrating as we learn the business and we learn the category, but I'm happy that we didn't try to match the year-ago promotional level, because I think that would be a potential race to the bottom that we didn't want to do. Instead we did the right thing and we are being rewarded, at least in the early days of July.

Matthew Grainger - *Morgan Stanley - Analyst*

Okay, that's good to hear. Thanks again, Bob.

Operator

Karru Martinson, Deutsche Bank.

Karru Martinson - *Deutsche Bank - Analyst*

Just in terms of Wish-Bone, when you guys look at the production starting internally in first quarter, do you still feel confident on that $65 million pro forma EBITDA? And kind of what's the outlook for you having that fully flow through?

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

The $65 million all-in EBITDA from Wish-Bone, as we've articulated, flows through next year. We are looking to take the Unilever co-pack arrangement that we have today and we will in-source that into our existing St. Elmo, Illinois, facility at the end of the first quarter of 2015.

Once that happens, we will have the full run rate benefit of that starting in the second quarter of 2015. So you will get three quarters of benefit next year and then obviously full benefit in 2016.

Everything relative to the integration, the upfront piece relative to quarter to cash and systems integrations all went brilliantly for the first three months that we owned the business, which was Q4 of last year. And then all of the other synergies in terms of SG&A and procurement and distribution are all on track. So we feel very good about the integration plan and are on track to hitting that $65 million once we get to the middle of next year.

Karru Martinson - *Deutsche Bank - Analyst*

Okay, and just lastly. On the inflation front, you mentioned protein a small part of the portfolio. I guess I was somewhat surprised that we weren't seeing more given the drought in California. I was kind of wondering if you could talk to your vegetable sourcing on that side.

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

Yes, sometimes you're good, sometimes you're lucky. Most of our vegetable sourcing is Midwest-based. That's where our manufacturing sites are and that's where we internally grow our corn and peas and carrots and string beans. And those areas have been unaffected by the drought.

So the amount of volume or the amount of our all-in market basket that we procure from California is very, very small. Most of the areas affected have been in tomatoes, avocados, nuts, and those are, as I said, very small components of our overall portfolio.

Karru Martinson - *Deutsche Bank - Analyst*

Thank you very much, guys. Appreciate it.

Operator

Chris Growe, Stifel.

Chris Growe - *Stifel Nicolaus - Analyst*

Thank you, good morning. Just two questions, if I could. The first one I guess to -- and there has been a lot of discussion about promotion and kind of attacking the consumer.

You had a large increase in consumer-based marketing this quarter, as well as an increase in promotions, so is that sort of the sustainable or is it at a sustainable level, you expect, for the second half of the year as well? Will we see both of those levers being pulled, if you will, in the second half?

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

I think it will be again a little bit more balanced. You are getting a big spike in the promotional piece partly because of the Easter timing. And of course, when we look through the rest of the year the big holiday that we target is around fall bake and around -- between Thanksgiving and Christmas, but that's always been our plan.

And the consumer spending was really specifically targeted to Wish-Bone and Vlasic in this quarter. Again, we are -- it's not a conscious effort to say we are going to dial that up on an ongoing basis. We put it out there when we have new news and we want to build awareness around, for example, those are both seasonally related, because for the start of the summer you want to be advertising both salad dressings as well as pickles.

So I don't think there's any big shift in the way that we think about sort of our business going in the second half of the year in terms of those two measurements.

Chris Growe - *Stifel Nicolaus - Analyst*

Okay. I have just a follow-up question, if I could, and maybe it's a bit promotional question. But when you look at like the Birds Eye Frozen division, where you had an increase in promotion, you had a pretty nice response in volume as well, yet it didn't translate into better profitability in the quarter.

Was that just the uniqueness of input costs and productivity savings, that kind of thing? Or are you not getting enough volume response, I guess is the way to say it, to the promotional spending?

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

The volume response is not an issue on that at all. In fact, that was actually very good volume response there.

I think this gets back to when we talked about our guidance for the year where we said our productivity was going to be in the 3% to 4% range and we said a good target at the midpoint at 3.5% and inflation would be at 2%. That doesn't -- that relationship, while good for the year, doesn't always get delivered in that manner during each quarter. And I think you've got a situation in Q2, particularly in the frozen side of the business, where that relationship between productivity and inflation was less favorable than it was, for example, in the dry division.

But it's really just a timing of how it flows through the P&L rather than anything specific. And actually on Birds Eye and Birds Eye Voila! we are very happy with the volume response that we got from the promotion. We got some really good share lifts off of those businesses.

Chris Growe - *Stifel Nicolaus - Analyst*

Okay, thank you for the time.

Operator

Michael Gallo, CLK.

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

Good morning and congratulations on performing well. My question is just around Wish-Bone. You've owned the brand for around 10 months now.

I was wondering if you can talk about some of the opportunities incrementally to your original expectations, as well as perhaps some of the elements of the brand that might have been more challenging than your original expectations. And whether you see some opportunities as you kind of co-brand -- can you co-brand that into frozen or some other opportunities around the brand other than the obvious move in manufacturing? Thank you.

Bob Gamgort - *Pinnacle Foods Inc. - CEO*

Yes, so what I will do is I will start with the last one, the obvious move is -- our biggest part of our thesis is that we could generate significant synergies on this business and that we were in a unique position to do that, given that we could integrate this as an addition to our liquid manufacturing plant that is in St. Elmo, Illinois. We like to take that and put it in the bank, but our supply chain guys are working really hard to make that happen.

The fact that that is on track I think is the first deliverable on this thing. And all of our hypotheses on how we would do that I think has proven out to be right.

The category itself is a little bit slower growth than it had been in the previous five years. Again, hard to react to something that is less than a year. Our focus is, as it is in our other categories, is to do the right things and gain share.

Our calibration around the level of promotion and the tactics needed I think, again it's early days, are proving to be right. Clearly we made a choice not to try to match the year-ago promotions. That cost us some share, but it was the right thing to do. And I think as you look at the second half of the year or in the early days we are gaining some share, so that's something to watch for all of us.

And I think the last part is where do we go from here in terms of marketing this business? As we look at our 2015 plans, one of the biggest opportunities we see is the bundling of this brand with other brands in our portfolio in terms of marketing and promotion.

When we talk about promotional effectiveness we know that bundled promotions around consumer themes make a ton of sense. They are much more effective. And we see this as a brand that will unlock that for us.

One of the things that's interesting about Wish-Bone is it's the number one Italian brand. Italian has become really kind of a universal salad dressing, so it's a nice position to be in. But it's probably, and we are trying to quantify it exactly, not the largest -- one of the largest marinades out there period is Wish-Bone Italian dressing.

And so that around grilling season, combined with Vlasic, combined with Open Pit, gives us all kinds of potential to do promotions I think in a smart way that we haven't been able to do in the past. And you will see that all in 2015.

Then I think beyond 2015 you will see the innovation pipeline dial up. Maybe it will be in some point in 2015. It will all depend on getting that balance right between how much we want to invest in slotting versus how much do we want to drive consumer marketing and bundle promotions.

Still relatively early days on the brand. I think all of the assumptions have proven out well and we are still very excited about what we can do in the future.

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

Thanks very much.

Operator

Thank you. I would now like to turn the call back to Bob Gamgort for any closing remarks.

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

Hi, everyone; it's Maria. That concludes our call today. If you have any follow-up questions or need to talk, just give me a call. I'm around all day. Take care.

Operator

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