

April 19, 2018

Pinnacle Foods, INC: (PF)

Jacob Perry

Sector: Consumer Staples

Industry: Packaged Food

Current Price: \$56.01

Target Price: \$61.89

Company Description:

Pinnacle Foods Inc. manufactures, markets, and distributes branded convenience food products in North America. It operates through four segments: Frozen, Grocery, Boulder, and Specialty. The Frozen segment offers frozen vegetables, frozen complete bagged meals. The Grocery segment provides cake/brownie mixes and frostings, shelf-stable salad dressings, salad dressings, canned meat, table syrups, margarine/spread, pie and pastry fruit fillings, and shelf-stable pickles. The Boulder segment offers gluten-free products, natural frozen meal offerings, plant-based refrigerated and shelf-stable spreads, and plant-based protein frozen products. The company sells its products through supermarkets, grocery wholesalers and distributors, super centers, and more.

SELL

Current Price: \$56.01

Target Price: \$61.89

52 Week Range: \$52.25-\$66.67

EBITDA Margin: 21.9%

Net Margin: 13.8 %

Market Cap: 6.67B

Avg. Volume: 1,833,709

ROIC: 11.0%

WACC: 5.98%

Thesis: Pinnacle Foods proves to have impressive statistics that show consistent growth in revenue, earnings, and cost reduction. Their ability to identify losses in markets and address upcoming segments has shown that their increased measures are backed with business practices that are sustainable for the upcoming time horizon.

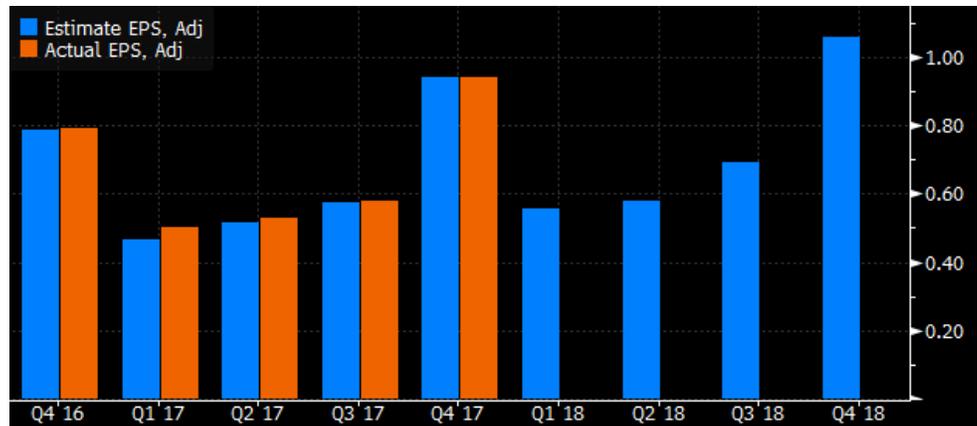
Catalysts:

- Short Term: Market shift to fresh food
- Mid Term: Millennials moving into the market segment
- Long Term: Growth of online grocery shopping

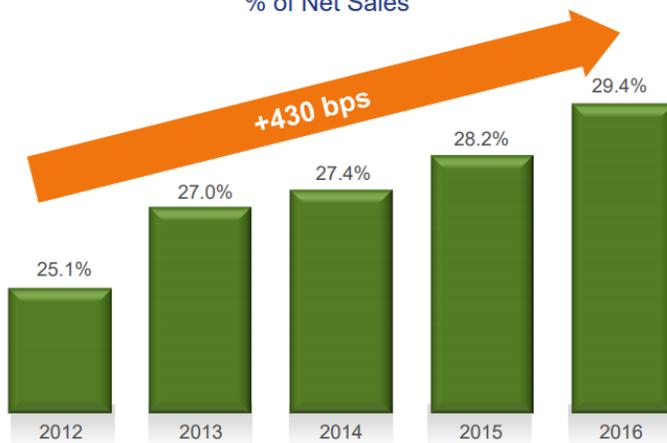


Earnings Performance:

Pinnacle has beaten earnings the past five quarters and looks to post consistent growth which could be attributable to competent corporate structure decisions. Strategic acquisitions and growth into new markets has shown Pinnacle to new opportunities to continue to



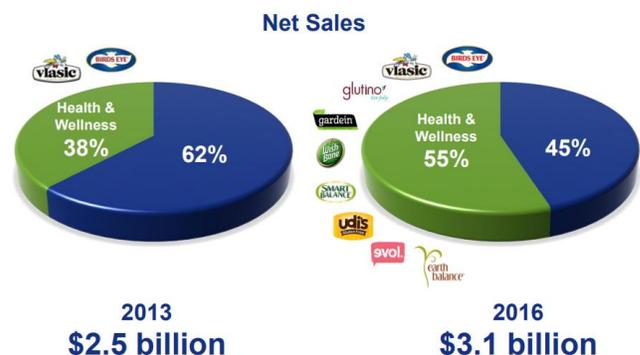
Adjusted Gross Profit % of Net Sales



grow their company. Revenue has increased over the past six years and is estimated to increase for the upcoming year again. Earnings per share increased 148 percent from last year to 2017 from \$1.81 per share to \$4.50 per share. Adjusted diluted earnings per share increased 19% to \$2.55 in 2017. Business segments have had an improved year despite some bumps in the road with one subsidiary leaving the market. Pinnacle has been able to continue strong growth that they have seen the past five years as seen in their adjusted gross profit growth. Future earnings should continue to increase due to macroeconomic facts like the U.S. tax reform.

Packaged Foods Health:

As a whole, the packaged foods market has moved in many different directions based on new societal eating trends and the popularity of “farm-fresh” food. Pinnacle has brands like Bird’s Eye that, even though they are frozen food brands, have taken a position in the fresh food category with their adaptation of steam-able frozen vegetables. Surveys have shown a movement away from processed foods and back to fresher food and ingredients. The number one category of food for growth in consumption is vegetables. With more people looking to live healthier lifestyles, Pinnacle has multiple brands to obtain market share. Other Pinnacle brands such as Smart Balance and gardein are in balance with new demand for fresh alternatives in the market. The growth of the Health and Wellness market is clear when looking at the difference of market segments that Pinnacle has revenue streams in. From 2013 to 2016, Pinnacle moved 17 percent of their net sales from other food categories to health and wellness.



Pinnacle vs. Competitors:

Pinnacle's competitors range across many different food markets from frozen entrees to canned goods. The diversity in product offerings through its subsidiaries that Pinnacle offers gives it a competitive advantage that only few other companies have. Their leading brands, Bird's Eye and Vlasic, lead their competition by significant margins and prove to be key factors in the growth of other Pinnacle brands. The combination of brands spread across different market segments gives Pinnacle reduced risk to changing consumer behaviors. Pinnacle has been making strides to develop new products among all of their subsidiaries. Duncan Hines introduced their instant dessert in a cup products and additional breakfast foods. Vlasic launched their bit-sized Snack'mms, a four-item line of pickled snacks. Another Pinnacle brand, Udi, released their own new line of products. Udi's new line of breads includes a new formula to improve the taste and texture of their gluten-free products. Pinnacle has shown large strides in improving their current line of products among their subsidiaries. Over the past six years, Pinnacle foods has grown exponentially. When compared to other

COMMON SIZE VIEW				
	6-year Historical Median		Last 12 Months	
	PF	Competitors	PF	Competitors
COR/Rev	73.0%	67.9%	70.9%	66.6%
(SGA+Other)/Rev	13.7%	19.9%	13.2%	20.8%
DPR/Rev	2.6%		2.6%	0.0%
EBITA Margin	10.7%	12.2%	13.3%	12.6%
Interest exp/Rev	5.1%	1.5%	4.0%	1.9%
AMORT/Rev	0.6%		0.4%	0.0%
SBC/REV	0.5%		0.6%	0.0%
Other Non-Operating Exp/Rev	-0.5%	-2.9%	-10.5%	-6.8%
Taxes/Rev	1.4%	2.6%	5.1%	3.7%
Net Margin	3.7%	10.8%	13.8%	13.8%
Cash/Capital	3.5%	4.3%	4.6%	5%
NWC/Capital	6.0%	11.0%	5.1%	6%
Operating Assets/Capital	50.6%	52.9%	50.7%	56%
Goodwill/Capital	39.9%	31.8%	39.6%	33%
Debt/Capital	63.8%	49.6%	55.7%	56%
Other Claims/Capital	0.0%	0.6%	0.0%	0%
Book Value/Capital	36.2%	49.9%	44.3%	43.3%

competitors in their market, it can be observed that Pinnacle has made significant strides towards increased returns. Pinnacle increased their net margin from 3.7 percent at their six year median to 13.8 percent in the last 12 months. In the same period, competitors increased from 10.8 percent to 13.8 percent. Pinnacle has also improved their ability to retain their revenue and turn it to income. The six year median EBITA margin was 10.7 percent and the net margin was 3.7 percent for Pinnacle. In the last 12 months, they have become more profitable with an EBITA of 13.3 percent and net margin of 13.8 percent.

Tax Reform:

Pinnacle executives had stated that Pinnacle foods stands to benefit from the U.S. tax reform. The savings from the reduced taxes that they recover will be used to invest in their brands and employees. Some of the reinvested capital will be used to fund SG&A back to levels they had in 2016.

Pinnacle's Market Footprint:

Pinnacle has a vast footprint that stretches across the nation in many different distributors. With products in frozen, canned, or packaged foods, Pinnacle keeps themselves in the eye of the consumer no matter where they may be in a grocer. The new trend of grocery shopping is online purchasing of any foods you may need. Pinnacle had made strides in integrating their brands' websites to be more consumer friendly to encourage online shopping growth. In the past year, Pinnacle has seen growth in online sales of over 20 percent CAGR. As retail stores show pull backs from consumers for more time efficient ways of shopping, Pinnacle stands ready to benefit on all fronts of the food industry. Pinnacle's growth in the past few years has led to a lack of ability to meet their demand. This led Pinnacle to their acquisition of the Beaver Dam manufacturing plant. Beaver Dam is a large plant that has expanded Pinnacle's ability to create the goods that they lacked before. Specifically, Beaver Dam is engaged in the production of goods for Bird's Eye. Pinnacle's growth has allowed them to grow their employee population, expand their brands value, and expand the amount of manufacturing plants under their ownership.

Enhanced Scale and Capabilities		UNLEASHING BRAND POTENTIAL	
		2013	2017
# of \$100m+ Brands		6	8
# of Employees		3,700	5,500
Temperature Classes		Frozen Dry Grocery	Frozen Dry Grocery Refrigerated
Retail Distribution Channels		Traditional	Traditional Natural & Organic E-commerce
# of Manufacturing Plants		10	17

Conclusion:

Pinnacle Foods has shown an ability to create value through the purchasing of new resources, increasing profitability measures, and adapting to new market trends. Their year over year growth against their competitors makes them a strong consideration for an investment. Reinvesting has given Pinnacle a stronger position to grow than its competitors as seen over the past few years.



Pinnacle Foods Inc. (PF)

CENTER FOR GLOBAL FINANCIAL STUDIES

NEUTRAL

Analysis by Jacob Perry

Current Price:

\$56.01

Intrinsic Value

\$56.92

Target 1 year Return: 12.85%

4/19/2018

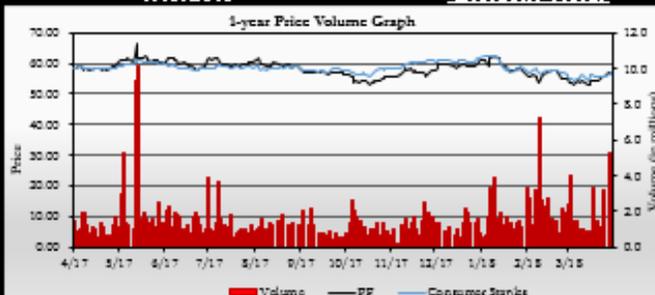
Dividend Yield:

2.4%

Target Price

\$61.89

Probability of Price Increase: 78%



Description	
Pinnacle Foods Inc. manufacturer, marketer, and distributor branded convenience food products in North America.	
General Information	
Sector	Consumer Staples
Industry	Food Products
Last Guidance	February 12, 2018
Next earnings date	May 3, 2018
Market Assumptions	
Estimated Equity Risk Premium	5.08%
Effective Tax rate	27%

Market Data	
Market Capitalization	\$6,570.60
Daily volume (mil)	6.48
Shares outstanding (mil)	119.03
Diluted shares outstanding (mil)	119.55
% shares held by institutions	109%
% shares held by investment Managers	74%
% shares held by hedge funds	27%
% shares held by insiders	0.86%
Short interest	3.50%
Days to cover short interest	2.27
52 week high	\$66.67
52 week low	\$52.25
Volatility	18.09%

Quarter ending	Part Earning Surprise	EBITDA
12/25/2016	0.69%	15.15%
3/26/2017	0.03%	-1.18%
6/25/2017	-2.56%	-8.00%
9/24/2017	-0.54%	-2.76%
12/14/2017	-1.08%	-11.21%
Mean	-0.69%	-1.60%
Standard error	1.0%	4.8%

Market and Credit Scores	
Recommendation (STARS) Value	4
Recommendation (STARS) Description	Buy
Quality Ranking Value	NR
Quality Ranking Description	Not Ranked
Short Score	0
Market Signal Probability of Default % (Non-Rating)	1.152%
Credit Model Score (Non-Rating)	bb+

Industry and Segment Information	
LTM Revenue by Geographic Segment	LTM Revenue by Business Segment
United States--98%	Frozen--41%
Canada--5%	Grocery--35%
--	Boulder--13%
Intercompany--3%	Specialty--10%
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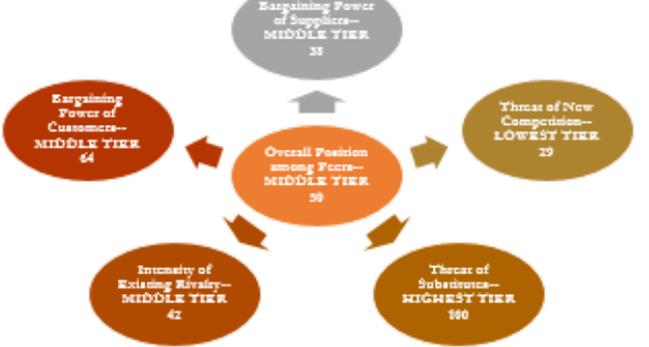
Management	
Clouse, Mark	CEO & Director
Steenock, Craig	Executive VP, CFO & Principal Accounting Offi
Schiller, Mark	Executive VP, Chief Commercial Officer & Inte
Baever, Christopher	Chief Customer Officer and Executive Vice Pre
Wittman, David	Chief Supply Chain Officer and Executive Vice
Moqer, Michael	Executive VP, General Counsel & Secretary

Total Compensation Growth	
34.83% per annum over 5y	0% per annum over 0y
40.64% per annum over 5y	18.82% per annum over 3y
-6.65% per annum over 3y	0% per annum over 0y

Peer	
Lamb Weston Holding, Inc.	Fluor Foods, Inc.
The Hain Celestial Group, Inc.	Campbell Soup Company
Conagra Brands, Inc.	--
Kellogg Company	The J.M. Smucker Company
McCormick & Company, Incorporated	Sanderson Farms, Inc.

Profitability	
Return on Capital (GAAP)	6.2%
Operating Margin	13%
Revenue/Capital (GAAP)	0.47
ROE (GAAP)	21.6%
Net margin	13.8%
Revenue/Book Value (GAAP)	1.56

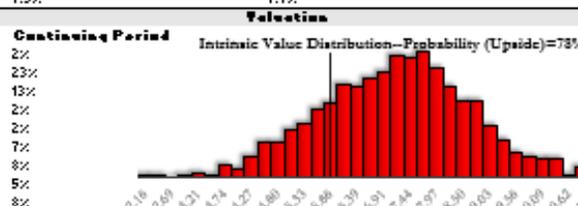
Peer's Median (LTM)	
5.68%	10.17%
10.71%	12.59%
0.53	0.81
8.2%	10.8%
4.7%	9.9%
1.75	1.09



Inverted Funds	
Cash/Capital	4.6%
NWC/Capital	5.1%
Operating Assets/Capital	50.7%
Goodwill/Capital	39.6%

Peer's Median (LTM)	
3.5%	4.7%
6.0%	6.5%
50.6%	55.7%
39.9%	33.1%

Capital Structure	
Total Debt/Market Capitalization	0.56
Cost of Debt	5.5%
CGFS Rating (F=care, Z=care, and default Probability)	CCC
WACC	5.1%



Sensitivity Attribution Analysis	
Revenue	82.0%
Operating costs	93.7%
Capital expenditures	1.9%
Discount Rate	1.9%