DIAMOND FOODS, INC.

Q&A

Operator: At this time I would like to remind everyone that if you would like to ask a question, please press star then the number 1 on your telephone keypad. Again if you would like to ask a question at this time, please press start then the number 1 on your telephone keypad.

We will pause for just a moment to compile the Q&A roster.

Our first question comes from the line of Heather Jones.

Heather Jones: Good evening, how are you doing?

Management: Fine Heather how are you.

Heather Jones: Good. I have a couple of questions. I was curious about your view on walnut prices. Recently the estimate for the crop it seems like it's going to be up about 15% year-on-year, and just wondering if you think that's going to bring down prices. Could give us some color on that?

Michael Mendes: Hello Heather, this is Michael. We did note the crop is gong to be larger based on the estimate. I think some of the things you need to factor into the context of that is total supply. The carryout inventory is at a record low going into this crop and that will have an impact on total supply. Additionally, while the dollars has strengthened a bit in the last few weeks, it's about 4% or 5% weaker than a year ago last year when we were contracting against the crop. Finally, the pecan crop this year is low – it's the off-cycle crop – so it's going to be a shorter crop and spot prices on pecans are reported to be quite high – significantly higher than even last year's walnut prices. So I think in the context of all this that we are in a position where we can see some stabilization of pricing which would be viewed as a positive for us, and that's in our forecast.

Heather Jones: Okay, thank you. How much did the culinary category grow during the quarter; the category; not your sales?

Steve Neil: Category - we'll jump on that here.

Heather Jones: I think last year you all benefited from being added to the bake aisle at Wal-Mart. I'm just trying to get a feel for what kind of growth are you projecting going into fiscal '09 for Culinary.

Michael Mendes: Well let me have Andrew pick up the category question on how it's been going and maybe Steve can add color on going forward.

Andrew Burke: Heather, the Culinary category over the last quarter -- and this was based on syndicated data -- in terms of dollars was up about 6%. And that comes off a 52 week number of about 4%.

The thing we like to see about that which was mentioned in the call was that the Culinary category seems to be really increasing over the last quarter. And what we think is the driver of this is the fact that consumers are cutting down the amount of meals that they eat out of home; they're preparing more meals at of home, which is perfect for our brand and our business, and it supports a lot of the activities that we're currently doing.

Heather Jones: Okay. So what drove your Culinary growth during the quarter? Again, I understand the bake aisle and I guess it would have been your Q1 last year, but this quarter what kind of increased distribution did you have? Because as I understand this, Culinary sales were up about 39%?

Gary Ford: Heather this is Gary Ford. Distribution was pretty well flat. We were in the 90% range; we just saw higher consumer take-away in really all channels; club, mass merchandiser, and traditional grocery.

It was -- and I think Andrew's right -- we are seeing consumers preparing more meals at home; that's a positive impact. And, because of a tight supply, we did have good levels of inventory position, particular at club level, where we probably had a little pick up in possibly what might be small bakeries and in the food service channel purchased through the club business.

Michael Mendes: Also Heather as we said earlier in the call, we did take three pricing actions throughout the year, which obviously we saw more benefit of that in the back end of the fiscal year than we would have in the earlier. And we saw some nice price strength in our total numbers.

Heather Jones: I think I may have not asked my question clearly. When you say the category was up 6%, was that volume or sales?

Andrew Burke: That was on dollars - dollar sales.

Heather Jones: Dollars. And your dollar sales were up 39%.

Andrew Burke: That's correct.

Heather Jones: So did your price increases great exceed the category?

Michael Mendes: Those are shipping dollars. Yes, because you asked the 6% that's IRI data just for the syndicated food segment. Our shipments are all channel. So keep in mind for example, in our numbers are a club shipment. Some of the benefit we enjoyed in the last quarter is that as inventories were low, a lot of the small bakery distributors that the club customers sometimes sell to, looking to the club channel as a sources where that might come through the channels in the past.

Heather Jones: Okay. My final question is on your 2011 Snack guidance. Because it looks like if you back out Pop Secret or the roughly 10-1/2 months it will be in there, that you're guiding to about $90 million to $100 million in Snacks, so I'll call it 10% growth roughly at the top end. I'm just wondering where you get your confidence from to take that core Snack business from $100 million to $200 million to $250 million by 2011?

Steve Neil: Heather this is Steve. I'll take a shot at that and the other guys here can chime in. Gary mentioned in the prepared remarks that one of our focuses is on distribution. We increased the distribution grocery by 28% last year of our core ten items of snack nuts; we'll continue to focus there significantly during 2009.

So, we're certainly not decelerating at all our expectations on snack nuts. But I think in a broader sense what we're looking at for the snack market is, with Pop Secret in there, we are taking a look at our priorities and what is the strongest profitable growth to the market that we can bring with our overall mix, and frankly what we can do to stimulate profitable growth at our customers.

So it's not as much a focus on one product, one channel; it's focused on our current product portfolio. So, don't read into any of the messages that we're decelerating or accelerating any of our products. We're a different company now with Pop Secret which avails ourselves to a lot of different priorities, and we're going to chase those certainly from a more material significant impact ones. So we'll realign our priorities, but again, we're pretty comfortable with growth in all channels and all products.

Heather Jones: So you're maintaining the $200 million and $250 million on core ex-Pop Secret snacks? So combined, looking at somewhere between $300 million and $350 million Snack sales by 2011?

Michael Mendes: Heather that's not correct. What we have said is that we are planning to grow our snack business to $200 million to $250 million, and we've always clearly stated that we would. When asked about acquisitions, we said we would always make a decision between what was best for the company, to build or to buy.

We had an opportunity to acquire a business that is squarely in the snack aisle in which we participate, and now we're going to be re-framing where we focus and attention and the resources put behind those opportunities in context of the brands that we currently have.

It's interesting that when you look at the intrinsic gross margin of the Pop Secret business and you look at the new products in the pipeline, we have an opportunity to fund the expansion to in context of the snack business we had ex-Pop Secret. We're going to have to evaluate he best place to focus and the time in which we will put resources against the relative new products.

So again, the intrinsic ability for Emerald to be north of a $200 million business stand alone definitely stands there as it has in the past. Now though, that brand will be competing with this new brand for resources, sort of the timing as grow that business. So we'll be making the best economic decisions fueling the total Snack growth in concert.

Steve Neil: And now just let me just finally just one more second, Heather, on this. One of the reasons why, in our prepared remarks, and I think it was Michael, commented that we'll come back to you at this time next year with long-term guidance once we've got Pop Secret under our belt and see what the future is that we really learn that business.

Rather than just add up numbers and throw out a number for -- I'll call it modeling sake internally -- we want to really understand the business and the multiples that we can put up, cross promotions, etc. So we didn't want to get too far out there and just add numbers together and put a stake in the ground without us really understanding the business and knowing how to drive it. So we thought that integrity and really that good focus so we do have a meaningful mid to long-term target was most appropriate so that's why we didn't really give you that number at this time.

Heather Jones: Yeah, understood. I had just always been under the impression that your 2011 margins and sales targets were organic and that, you know, acquisitions would be, you know, gravy to that. But anyway thank you for the clarity.

Operator: Our next question comes from the line of Mark Argento.

Mark Argento: Good afternoon gentlemen.

Management: Hi (Mark).

Mark Argento: A quick question here for you. Maybe I'll go after the Culinary question a little differently. Can you just talk about, on a unit basis per pound, how many more pounds of product did you ship this year in the quarter than last year so we can get a little better idea of where the growth came from in terms of how much should be ascribe to price increases versus unit volume? If you have that data that would be helpful.

And then, your expectations in terms of Pop Secret; like the last individual was talking about, the organic growth rates relative to adding back Pop Secret. Do you expect in year one you'll be able to grow Pop Secret from that $85-ish million run rate on an annualized basis? What are your expectations built into your guidance for the year?

Steve Neil: Hey Mark this is Steve. We really don't want to get into putting too much data out on to the call in volume and pricing. I just will say that the growth in the fourth quarter was a combination of volume and price. So we did grow volume in the quarter; we also had the benefit in the last quarter compared to the prior year, of the price increases we had. So, it was not simply price, but there was unit growth as well.

I'll let Michael handle the Pop Secret question.

Michael Mendes: On the Pop Secret business, we've owned this business all of ten days, and that's counting the weekend, so I think that humility would serve us well as we approach our vision for the future. I'll tell you, we'll know a lot more about this business and its growth potential as we move into January. Hopefully we'll have a chance to sit together when we have that analyst meeting at that time.

I would say that our focus at this time is to sustain our distribution. General Mills has a tremendous sales force – a direct sales force that managed their business. We're taking over that business through our broker network and we recognize that the distribution is quite strong on the brand. There's a lot of good items that have very nice location on the shelf. We really need to stabilize that base distribution; we need to do a great job of getting movement with the product to show our retail partners that we are additive to the category. And I think that first to stabilize and put ourselves in a position for growth going to next fiscal year would be at the heart of our objectives. If, as a result of that, we get some growth, that's gong to be upside.

So I think that, in the context of the Pop Secret business at grocery on a per average customer, is actually larger than our existing Emerald business. So we've got a lot to take on there. We're going to try to do a good job of stabilizing that business and optimizing the promotional effectiveness.

Mark Argento: In terms of better understanding, are you content with 10% growth? I mean I assume that's you're come into the Street with relatively conservative guides with 10% growth in the core Snack business, ex-Pop Secret. And what are your thoughts in that 10% kind of… let's just assume you're holding Pop Secret flattish we'll call it on a year-over-year basis. What kind of assumption is 10% leave us with in terms of additional distribution?

Do you have any assumptions built into your expectations that you're going to pick up material distribution for the year?

Michael Mendes: You know first of all, those break-outs are your numbers; they're not ours. We've not broken up those components. And keep in mind it's not a full year of Pop Secret sales that we have here, we've had 45 days of the fiscal year go by before we picked that business up.

But the upward trajectory on Emerald is primarily at this point, we believe, going to be driven by some nice work we've already begun and expand our distribution in the club and mass merch side of the business.

We mentioned in some of the previous calls some tests we've done with our Cocoa Roast Almond in the 38-ounce PET pack and the club set. We're very pleased with the performance on that item; we think that it's going to grow in distribution. It's been very well received and actually got a lot of positive reviews from consumer trade publications. We've got about five items in small tests to our various club customers which we feel very confident that some of those tests are going to get us some permanent distribution in a larger number of clubs. So, we're quite pleased with the trajectory of the business on that front.

On the mass merch side, we have two Breakfast-On-the-Go items which we secured distribution on this year. Two of those items in over 3,000 mass merch retail outlets. We're happy with the velocity of those items and again, we had a partial year on that, and if we can hold the distribution and they become an everyday item, that's intrinsically going to give us some growth.

So I think we've got the building blocks today for growth that gets us on the right track trajectory and I also am just pleased about the expansion of our distribution of our core items. You know, that is some spade work that's not sexy but is really at the heart of driving greater velocity of our brand. In Gary's comments he mentioned that we increased our core item distribution by about 28% and that's very important for us.

That means that we're getting more of the mainstay items that are franchises of the retailers, the kind of items the retailer's going to see everyday; that the retailer intrinsically has demand for no matter who the brand is. For us to gain distribution of that sector of products versus just new unique products, there's just a lot of velocity there naturally and we can partake in that and we think we can really excel because we think our products have superior quality and packaging on top of that.

Finally, if you look at something like Trail Mix; our trends on Trial Mix are very good. Our sales velocity for the 52 week is up 22%, and on the four week period, our sales are up plus 40%. That's a great base item; it's a unique item. We have a proprietary blend of products and as we gain distribution I think that's terra firma that we're going to be able to hold on well into the future.

So I think that we see some very nice growth, but we see them in franchise products, items that we are pleased to be lapping in the future. And I think that's the key as a growing, young public traded company: are we building terra firma growth? Are we building a foundation that we can stand on in the future, and I really feel that the growth that we're building in 2009 is going to set up 2010.

And I think some of you heard in our last call that we're very keen on using 2009 to really establish our footprint in 2010 and we see that being a particular breakout here on the snack nut side which we've been focusing on most.

Mark Argento: Well thank you for that additional clarity. One quick last question on pricing - historically, when you take price increases at retail, do they typically stick or do you ever get price erosion at retail? Meaning how sustainable should those increases be?

Michael Mendes: Generally we have very strong pricing power with our brands. I think that when there is some erosion from either off brands or own label that may result in some increased promotional activity. Over the long term if there's a significant value differential there can be erosion, but generally if there is a bit of a need to provide more value, we can do that through promotional events.

Mark Argento: Thank you very much.

Management: Thanks Mark.

Operator: Our next question comes from the line of Ken Zaslow.

Ken Zaslow: Hello everyone.

Management: Hi Ken.

Ken Zaslow: A couple of questions. One is have you guys decided if you're going to split up the snack nuts from the Pop Secret business in the sales line? I know that was a question I asked last time. I didn't know if you gave more thought to it.

Steve Neil: We have given more thought to it and I kind of touched on it I think with Heather, Ken. We're going on focus on the whole snack category; we've got more SKUs obviously now with Pop Secret and our focus is just going to be driving the top priority products, channels, customers, etc. and not really focus on snack nuts and popcorn.

So the other thing that you get to that gets to be difficult -- and this is the defensive side -- is how do you allocate cross-promotions and distribution charges etcetera? I don't want to spend time focusing on those allocations. I'd rather focus on the category. And frankly our buyers are focusing on our snack products, not just snack nuts or popcorn. So we're going to show just snack as one item, and drive growth through that one item.

Ken Zaslow: Okay. I guess the other thing is just to clarify on Heather's point and clarify your point on this, is the $200 million or $250 million snack nut sales was always inclusive of acquisitions? I might have misunderstood that; is that true?

Michael Mendes: It was. That's been our snack goal and it was a build or buy decision as to how we've evaluated that. I think the thing to keep in mind is that obviously in the absence of the Pop Secret acquisition, we had a lot of bandwidth to focus on our core snack items and our new products. Now in context of this larger business, we've got a much larger portfolio to manage a whole new set of products to evaluate in terms of which items are going to get slotting and incremental promotions. And so that's going to reconceive our view.

Again, I think that intrinsically the base of Emerald is very strong. I think the thing that gets me excited is when you put these two brands together and you look at our critical mass in that snack set and our ability to promote with that snack buyer, I think that we're going to see a lot of benefits for both brands by marketing the two together.

And back to Steve's point about how we look at the business, Ken, I think it's interesting when you ask yourself how would the buyer look at our items and how would we be evaluating the product line.

You know, one of Pop Secret's more successful product lines is its 100-calorie line. We now are introducing a new set of 100-calorie Emerald snack products. We are going to be presenting that whole 100-calorie portion control portfolio as a set. We will not be designating by raw material type, just to give you a little more color on how we're looking at the business.

Ken Zaslow: My vote would be to separate it, but I don't think I get a vote! In terms of sales growth, if you look at the annual versus the quarter, how did snack nuts -- and maybe again I'm obsessive on the snack nuts -- go from 11% to the most recently 3%?

Was that deceleration expected or - can you just give a little color on why that happened?

Steve Neil: Yes, Ken, this is Steve. I'll take a shot at that first. Our guidance in the quarter on snack nuts was $85 million to $95 million for the year. We came in at $89 million so slightly below that mid-point and a lot of that has to do with the timing of new distribution and slotting and the timing of promotions. We had a couple of joint promotional activities with some of our partners and so it's very, very difficult to land on a dime there as to what that number is.

So, yes, we were very much within our expectations for snack sales in the quarter and certainly are not disappointed at all as to where we landed.

Ken Zaslow: And my last question is, how accretive is Pop Secret now that you have it for under 10 days? I'm assuming that you have some financial outlook on this. And just give us some idea of how accretive this is to 2009.

Steve Neil: Our thoughts haven't changed from when we announced back in August. It is going to be accretive, including financing costs. It should be mid-single digit accretive is where our thinking is today. That hasn't changed and we're really excited about it. We definitely think there is ways to drive growth, etcetera, but even after 10 days -- and we all did work the weekend because other parts of our business is going right now as well -- it's still too soon to tell as to how much more there could be there, Ken, but we are very comfortable that it will be accretive and we look to grow it.

Ken Zaslow: When you said mid single digit is it 9 cents or, you know, is it - when you say, I guess is it five to, you know 4 cents to 7 cents?

Steve Neil: Yeah, 4 cents to 7 cents.

Ken Zaslow: ... percentage of growth? Is it a percentage of growth or a percentage of cents?

Steve Neil: No, EPS.

Ken Zaslow: Okay, so it's like 4 cents or 5 cents is what you think it is?

Steve Neil: Correct.

Ken Zaslow: Funny, I get a lot higher. Is it the Advertising that's going to take it down because if I look at the margin structure I can almost get to 15 cents to 20 cents.

Steve Neil: I think there's a couple of things that you have to figure in and what we have factored in there. Yes, advertising as you saw our forecast for the year of $26 million to $29 million is significantly up and so we're certainly going to support Pop Secret as well as continue to heavily support Emerald and Diamond. You do have financing costs involved in there and frankly we didn't want to get too out in front of ourselves as to our ability to grow the business until we've actually owned it and experienced it.

As the nature is of acquisitions is now days, you don't get that much in due diligence until you actually own the brand, and we now firmly own the brand and we're running with it. But it's still a little bit early days and I don't think it benefits us too much to get too far out there on expectations of cost efficiencies.

If we look long term, the gentleman sitting next to me here, Mr. Ford, is going to drive as much efficiencies out of popcorn as he has in nuts and so we're very, very comfortable with that. It's just that we'd rather take a conservative growth view in that first year and gain experience.

Michael Mendes: Ken, also in order to really assure we do a strong job in integration, we negotiated to pay for transitional services for an extended period with General Mills. We think that's very prudent in terms of assuring a smooth integration of this business, we have hired a lot of the people who are going to be running that business so that's going to duplicate our costs for a five to six month period and we hope that we'll see some more efficiency when we're lapping these numbers next year when we don't have that transitional services agreement.

Ken Zaslow: Great, I appreciate it. Thanks.

Management: Thanks Ken.

Operator: Our next question comes from the line of Diane Geissler.

Diane Geissler: Good afternoon. Can you hear me?

Management: Hi Diane, how are you?

Diane Geissler: I'm good.

Gary Ford: It's late evening if you're across the pond.

Diane Geissler: No, I'm like three time zones away. I may have missed this - I missed the first part of the call, but did you talk about your expectations on your cost for next year in terms of nuts, almonds, walnuts, pecans?

Michael Mendes: Diane let me have Gary give a little bit of a commodity overview just to give you some of the things that we're looking at. Gary?

Gary Ford: Diane, we are going to have a record walnut crop if the estimate comes to fruition, about 375,000 tons; that's up 15%. But we're early and the crop is running a little late. We are going to have good supply. We're not ready to speculate on pricing, but it appears at this point in time we're going to have adequate supply and great quality.

As you are aware, there's going to be a record almond crop as well, about 1.5 billion pounds, and almonds are about 30 days ahead of walnuts in terms of harvesting that crop. It looks very, very good. It looks like at this point in time that number is going to be what we were expecting – stability with adequate supply.

And in pecans, while this is the off year for an alternate bearing crop, because a lot of production has shifted to Mexico (maybe as much as a third of the crop this year), we are expecting a decent off year. We're expecting adequate supply there as well.

And then in peanuts, that crop appears right now, based on the estimate to be up about 20% versus prior years. So, when you look at the four big ones, we are expecting adequate supply. But at this time, we're not prepared to say, what that's exactly going to do in pricing. But supply looks to be very adequate.

Michael Mendes: I think what I would characterize generally, Diane, is that the one thing about the walnut industry is they had the lowest carry-out in history. That's coupled by the fact that although the dollar is a little stronger over the last few weeks versus a year ago, the dollar is 4% weaker than last year. And, with the pecan crop being short, that could provide an environment that walnut prices might stay stronger than they would otherwise.

I guess that's one thing we do feel comfortable with is since we went public three years ago; we've seen constant accelerating input prices in these general commodities. But I think we're in an environment where we should see that stabilizing and that's what we've built into our model.

Diane Geissler: Okay great, thank you for the color on that. The other question I had and again I apologize if this has already been asked, but your categories strike me as ones that could be considered discretionary items and carry a rather high price point, particularly on the tree nut side. Can you talk about whether you are seeing trading out of your category because of economic reasons? I mean obviously gas has come down, but since the period that you're measuring here, we've only had bad news. Could you talk a little bit about the discretionary-ness of your category.

Michael Mendes: Let me just amplify -- Andrew did speak to that broadly, but let me just give a little more color on what Andrew shared. What we have noted is that out-of-home meals seem to be declining and people are looking to at-home prepared meals as a better value opportunity. We've actually seen the 52 week, 12 week and four week trends skewing positively in terms of culinary and our business in particular. And we think that is a bit of a reflection of people recognizing the better value of at-home meals.

And so we think that actually plays nicely for our culinary product line. I do think that we may see a little bit of change in context of which pack sizes people may purchase. And I think that there may be some shifting to smaller pack sizes. That while there may have a little bit of erosion on the otherwise trajectory of the sales dollars, the margins are better for us I those items. So I feel that we have ways in which we think we can optimize, particularly within culinary, for that area.

On the in-shell nut side I think that that produce segment, because the pricing is done annually, there's not a lot of consumer memory on the price point. But so we think overall the price points will be more attractive than they were a year ago, so I think that that should offset maybe some inflationary issues.

And then on the snack products, we're on a big distribution drive trying to get more points of distribution for our product. And the fact that we've grown quite significantly in the value channels in the mass merchant clubs, while still we've got a long way to go. We've made some nice growth in those areas. I think that's a good place for us to have some additional distribution going into this kind of environment.

Diane Geissler: Boy Michael, when I hear you say we're on a big distribution drive that makes me think, promotional dollars. Is that maybe why your top line cash revenue - I guess maybe the question is what's built into the snack revenue – I guess maybe the question is not the snack revenue, not the snack revenue nut revenue projection, for fiscal 2009 in terms of promotional spend?

Michael Mendes: You've accurately assessed our disposition. We have a portfolio of 100-calorie snack products that we are bringing to market. For competitive reasons don't want to share more -- but we have a few base items that we think we've restructured and repositioned that are going to be very interesting for our snack buyers that's going to be in a grocery push. And then also we have some items on the Pop Secret front that we're looking to build out that we think is a nice opportunity.

So we have reflected a surge in slotting spending that would reflect a build in distribution of these items, and I think that's exciting for us because we feel these are quite mainstream products. And so we're going to be working very hard to build our distribution this coming year.

Diane Geissler: Okay. All right, well I appreciate your comments. Thank you very much.

Michael Mendes: Thanks.

Operator: And there are no further questions at this time. Do you have any closing remarks sir?

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