J & J Snack Foods Corp(Q2 2024)

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Corporate Speakers:

- Norberto Aja; J&J Snack Foods; Investor Relations
- Dan Fachner; J&J Snack Foods; President and Chief Executive Officer
- Ken Plunk; J&J Snack Foods; Chief Financial Officer

Participants:

- David Shakno; William Blair; Analyst
- Todd Brooks; The Benchmark Company; Analyst
- Connor Rattigan; Consumer Edge; Analyst
- Andrew Wolf; CL King; Analyst
- Robert Dickerson; Jefferies; Analyst

PRESENTATION

Operator^ Welcome to the J&J Snack Foods Fiscal 2024 Second Quarter Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. I would now like to hand the conference over to your first speaker today, Norberto Aja, Investor Relations. Please go ahead.

Norberto Aja^ Thank you, Operator. And good morning, everyone. Thank you for joining the J&J Snack Foods fiscal 2024 second quarter conference call. We will start in just a minute with management's comments and your questions.

But before doing so, let me take a minute to read the safe harbor language. This call contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

As such, all statements made on this call that do not relate to matters of historical facts should be considered forward-looking statements including statements regarding management's plans, strategies, goals, expectations and objectives and our anticipated financial performance.

These statements are neither promises or guarantees and involve known and unknown risks, uncertainties and other important factors that may cause results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

Risk factors and other items discussed in our annual report on Form 10-K for the year ended September 30, 2023, and other filings with the Securities and Exchange Commission could cause actual results to differ materially from those indicated by the forward looking statements made on this call today.

As such, forward-looking statements represent management's estimates as to the date of this call May 7, 2024.

And while we may elect to update forward-looking statements at some point in the future, we disclaim any obligation to do so even if subsequent events cause expectations to change.

In addition, we may also reference certain non-GAAP measures on the call today including adjusted EBITDA, adjusted operating income or adjusted earnings per share, all of which are reconciled to the nearest GAAP measure in our earnings press release, which can be found in the Investor Relations section of our website.

Joining me on the call today is Dan Fachner, our Chief Executive Officer along with Ken Plunk, our Chief Financial Officer.

Following management's prepared remarks, we will go ahead and open the call for question and answers. With that, I would now like to turn the call over to Mr. Dan Fachner, J&J Snack Foods' Chief Executive Officer. Dan, please go ahead.

Dan Fachner^ Thank you, Norberto. And good morning, everyone. We appreciate you joining us this morning to discuss J&J Snack Foods' fiscal 2024 second quarter results.

We delivered record second quarter net sales of $360 million reflecting growth across our Food Service, Retail and Frozen Beverage segments with year-over-year increases across most product categories.

Our strong performance was driven by an amazing team of employees who are aligned in executing our strategy and committed to serving our customers and valued stakeholders. We have a wonderful business with tremendous growth opportunities ahead of us and we continue to see that in our financial results.

Our strong top-line performance combined with gross margins exceeding 30% in the quarter, a 330 basis points improvement over last year is a result of executing our strategy including focused initiatives to improve profitability. This resulted in adjusted operating income and adjusted EBITDA growth of 81% and 43.1% respectively, and a more than 90% increase in net earnings.

In short, strong performance across the board. Our strategies to leverage innovation and cross-selling opportunities to expand placement of our core products and brands are delivering results.Let's take a closer look at our sales performance in the quarter.

In our Food Service segment, Churros sales continued their strong growth momentum, increasing 23.7% to nearly 31 million led by new business growth of one of the three largest QSR customers. Recent investments to add two new Churro production lines have us well positioned to capture incremental opportunities in the Churro category, and we expect the continued growth throughout the year including international opportunities as well.

In addition, Bakery sales increased 7.7%, driven by unit volume growth in cookies, new products and expanded customer placements.

Frozen novelties sales grew a 4.2%, led by the continued growth of Dippin' Dots. Dippin' Dots sales increased 5% in the quarter led by growth across most channels. Growth across the segment was partially offset by softness in soft pretzels and handhelds.

Moving on to our Retail segment. Handhelds grew 75.5%, driven by expanded placement with a major mass merchant.

Frozen novelties sales increased 14%, led by growth of Dogsters and Icee novelties, while biscuits sales increased 6% and soft pretzel sales increased 2.7%, led by our continued expansion of Superpretzel products, largely reflecting strong demand for our new Superpretzel Bavarian Sticks.

Frozen Beverages segment also delivered healthy growth, led by a 6.9% increase in Frozen Beverage sales, reflecting consistent consumer trends across most customer channels. Repair and maintenance revenues also increased by 2.9%, reflecting strong maintenance call volumes. Partially offsetting this growth were relatively flat machine sales down 0.4% as we lap a large rollout from last year.

I'd like to take a couple of minutes to highlight a few areas that support our relentless focus on driving growth, building our brands and capturing incremental opportunities.

Starting with Superpretzel, this iconic brand is outperforming the snack category and continues to provide opportunities for growth through new product extensions or new points of sales.

We are quickly expanding this brand across retail led by the launch of Bavarian Sticks, which has become the number two seller in Superpretzel portfolio, reaching an ACV of 25% and growing.

I'm also pleased with the incremental distribution we are achieving and our marketing execution led by promotions like the recently concluded March Madness campaign.

Later in the year, we look forward to various soft pretzel launches in the club channel under the Superpretzel, Brauhaus and Auntie Anne's brands as well as bringing to market our Superpretzel Roller Grill Dog and Food Service. And as it relates to Icee, we continue to see healthy momentum with new client wins such as Dave & Buster's and an upcoming test with a top 10 national QSR chain.

Our sales in Mexico, the amusement channel, mass merchandise retailers and restaurants increased for the quarter, and we just wrapped up our national flavor and movie promotion with Checkers.

Let's talk about Dippin' Dots.

I'm pleased to confirm that we have secured full location rollouts for AMC Theatres and Cinemark Theatres with targeting a completion by the end of the fiscal year.

Once completed, Dippin' Dots will be sold in approximately 880 theater locations, continuing our strong partnership with these leading customers. And we've also reached an agreement to roll out vending machines across Marcus Theatres. And I'm so proud to report, we were just awarded vendor of the year by Marcus Theatres.

This is a testament to our continued efforts in cross selling our portfolio to our largest customers.

Finally, we are making great progress on test with a couple of major convenience customers and have a confirmed full rollout with 162 location Food Service customer that we hope to have implemented later in the year.

Let's talk about a few other innovation highlights.

I'm so proud of our R&D team and the opportunities they are creating through new products, better packaging and product extensions. Recent accomplishments include the launch of Hola. Churros in the retail, the addition of new Dogsters pumpkin flavor, new Dogsters club channel packaging, Brauhaus Bavarian packaging and Food Service, a new Capables Cookie brand, and the launch of Superpretzels, Soft Pretzel buns into in store bakery.

We also recently announced the acquisition of the Thinsters brand, which provides us with strong brand and quality product to add to our cookie portfolio. Thinsters are predominantly sold in the club and retail channels, servicing existing customers of ours.

We have been producing this product for the previous owner.

So this will be a seamless integration and a quality brand that we can build across both retail and food service. Our team is relentlessly focused on innovation and creating new selling opportunities.

From an operational perspective, there are many positives to report as we continue to execute against our initiatives to enhance overall operations and better support our growth opportunities.

Starting with our supply chain strategy, we now have opened all three distribution centers, Carroll, Texas, Woolridge, New Jersey, and more recently Glendale, Arizona.

These three new RDCs are exceeding expectations and will enable us to continue driving productivity improvements in our supply chain.

At this time, 81% of our sales orders are shipped from the new distribution network versus only 26% a year ago, with the average length of haul decreasing by over 40% and the on-time performance improving to 87% versus 74% a year ago.

Shifting to operations. The addition of six new production lines have significantly expanded our capacity. This has enabled added efficiencies and given us the ability to meet growth opportunities across our core products such as pretzels, churros and frozen novelties, enabling new customers and channel opportunities. Two new frozen novelty lines have added critical capacity and flexibility during the peak summer season. They're also allowing us to make similar products in different locations, leading to freight savings.

The new Churro line also increased capacity and provided us with the capability to meet the growth we anticipated in Churros.

Our two new pretzel lines in Texas and New Jersey immediately created capacity to meet market demands that we could not previously serve, while also creating growth opportunities in food service for Bavarian pretzel bites, retail division expansion and in store bakery innovation.

Overall, the expanded capacity has created production efficiencies and higher output metrics through better automation, which improves product margins, decreases over time, and provides the flexibility to meet unforecasted additional sales during peak summer business.

In closing, I am pleased with our ability to post record sales while managing through an ongoing challenging consumer environment. And as I mentioned at the onset, I'm so proud of how the J&J team continues to execute our five core strategies, grow and protect our brands, dominate core categories, cross sell the portfolio, invest in our future, and embrace our culture.

With that, I would now like to pass the call over to Ken to review our financial performance in more detail. Ken?

Ken Plunk^ Thank you, Dan. And good morning, everyone. I am pleased with our ability to deliver strong results for the quarter including the highest fiscal second quarter net sales, topping our previous record achieved last year. This combined with gross margins over 30% contributed to significant profit growth and profits growing faster than sales. Net sales for the quarter totaled $359.7 million an increase of 6.5% versus the prior year.

As Dan mentioned, top-line performance was driven primarily by higher volume than new business performance in the quarter.

Food Service, our largest segment, saw sales increased 5.4% to 230 million as Churros continue their strong growth momentum increasing 23.7% to over 30.8 million.

Bakery and frozen novelties increased 7.7% and 4.2%, respectively, driven by unit volume growth in cookies and a 5% increase in Dippin' Dots sales. Growth across the segment was offset by a decrease in soft pretzel and handheld sales of 2.1% and 4%, respectively, driven by soft consumer trends.

It is important to note that volume sales for our major handheld customers did increase for the quarter.

In addition, sales of new products and at a placement with new customers totaled approximately 13.7 million, driven primarily by the addition of Churros to the menu of a major QSR customer. This led to a second quarter operating income of $7.9 million an increase of 54.5% versus the prior year period, reflecting the top-line growth and improved gross margins.

Moving to our Retail segment. Q2 '24 retail sales totaled $52.9 million or an increase of 14.1%, driven by handheld sales growth of 75.5%, as we expanded product placement with a major mass merchant.

In addition, frozen novelties sales increased 14% led by the growth of and Icee novelties as well as higher shipments as customers build inventory for the peach spring summer seasons.

Biscuit sales increased 6% in the quarter and saw pretzel sales increased 2.7%, led by our continued expansion of Superpretzel product in retail.

We also benefited from new product innovation in this segment of approximately $2 million in the quarter. This was largely the result of the introduction of Superpretzel Bavarian Sticks into the retail segment.

This led to an operating income of $5.1 million or an increase of $4.6 million versus the prior year period reflecting the improved sales, product mix and gross margin.

As it relates to our third segment, frozen beverages, sales were $76.9 million and beat Q2 2023 sales by 5%, led by beverage sales growth of 6.9%, reflecting consistent consumer trends across most customer channels.

Repair and maintenance revenues also increased 2.9% as we saw strong maintenance call volumes. Machine sales were relatively flat down 0.4% as we lapped a significant customer rollout from last year. This led to operating income of 4.9 million, compared to a Q1 '23 operating income of $4.6 million driven by sales growth and consistent gross margin performance.

Our investments and initiatives over the last two years to enhance profit margins and drive efficiency across our business are proving to be successful.

For the quarter, gross profit totaled $108.2 million, a 19.8% increase compared to Q2 '23. This led to a 330 basis point improvement in gross margin to 30.1%, favorably comparing to 26.8% in Q2, 2023.

We remain confident in our plans to improve profit margins and expect to achieve gross margins of 30% or better for the full year.

As it relates to inflation, the overall impact has stabilized.

We are now experiencing deflation in some raw materials like flour, oils, dairy and eggs.

However, this was offset by double-digit inflation in chocolates and mid-single-digit increases in sugars and sweeteners, mixes and meats.

Our procurement team is effectively managing supply and cost and we are well positioned to respond to any impacts.

Looking at expenses, total operating expenses increased $10.1 million or 12.7%, representing 25.1% of sales for the quarter compared to 23.7% in Q2 of '23.

It is important to note that during the quarter, we incurred $2.3 million in one-time expenses, reflecting transition costs primarily related to the recent opening of our third distribution center in Glendale, Arizona.

This was a planned cost of our distribution network strategy and it's expected to drive meaningful cost savings once we complete the initiative. Distribution costs were 12.3% of sales in the quarter compared to 11.3% in the prior year period, driven by the previously mentioned one-time transition cost.

Going forward, we expect distribution expenses to further benefit from our initiatives to improve logistics management increase efficiency across our distribution network and supply chain. Marketing and selling expenses were 7.7% sales versus 7.1% in the prior period, driven primarily by incremental licensing fees and promotional marketing support on core brands and new products.

Administrative expenses were 5.1% of sales in Q2 of '24 compared to 5.3% in Q2 of '23, driven by tight management of payroll and discretionary spending. This led to an operating income of $17.9 million or a 75.6% increase compared to $10.2 million in Q2 of '23. Adjusted operating income was $21.8 million or an 81% increase compared to Q2 of '23. After the impact of income taxes of $4.8 million compared to $2.4 million due to fiscal '23, net earnings increased 94% to $13.3 million, resulting in reported earnings per share of $0.69, compared to $0.36 in the prior year period.

Adjusted diluted earnings per share were $0.84 for the quarter compared to $0.43 in the prior year period. Adjusted EBITDA increased 43.1% to $39.3 million from $27.5 million in the prior year period and our effective tax rate was 26.6% in the second quarter.

Looking at our liquidity position, we continue to have a healthy balance sheet and overall strong liquidity position with $43.6 million in cash and approximately 17 million in debt.

Our ability to improve cash flow through working capital initiatives and stronger profitability is generating more cash to pay down debt, raise dividends and continue investing in our business.

Our focus will continue to be on maintaining a healthy balance sheet and prudent leverage position which enables us to continue investing in the growth of our business and returning value to our shareholders.

In addition, we have ample availability under our revolver of approximately $198 million in additional borrowing capacity.

In summary, we are executing our strategy, improving operational efficiencies and profit margins and expanding growth opportunities across channels and customers.

Our second quarter performance together with our robust balance sheet and liquidity position as a position to continue driving growth across our brand portfolio and customer channels.

We are executing our strategy and remain confident in our plans to continue driving profitable growth and value to our shareholders. I would now like to turn the call over to the operator for questions and answers. Thank you.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question comes from David Shakno from William Blair.

Please go ahead.

David Shakno^ This is David Shakno stepping in for John Anderson. Two quick questions for you guys.

First off, can you help us quantify the savings that may be achieved with the third distribution center in Arizona that's now up and running?

Dan Fachner^ Ken, I don't know if you want to look forward towards what that savings might be.

But David, that third one just got into place. And so, what we've said pretty consistently is once we get those three distribution networks into place, we believe that we can drive the percentage of sales of distribution down into that 10% or lower range. And they're just now getting the place.

We haven't seen that savings yet, but we think that savings is yet to come in short order over the next six months to a year.

Ken Plunk^ Yes. Dave, I would add to that. You do need to look at the savings collectively as all three of those RDCs and the change we've made work together. Just to add to what Dan said, I think we have come out and said in previous meetings. The business case for this as it's all integrated and working together, we think will save us $10 million a year in that range give or take.

We're really confident about that. And it will be really the next quarter and the Q4 next year when all this really starts to be a bit more seamless. And I think we'll start to see that percent of sales come down under that 10% range that Dan mentioned.

Dan Fachner^ Really excited about that distribution network though.

I love what it's already performing at and how it's helping us better serve the customer and then know that, that savings is right around the corner.

David Shakno^ And then, if I can slip in one other, I just wanted to know what attracted you to acquiring the Thinsters brand.

I know in the prepared remarks, you mentioned that you produced that anyway.

But if you could just talk about any plans you have for Thinsters, whether it's new flavors, distribution or something else that I'm not thinking of?

Dan Fachner^ What really did attract us, you already have mentioned it is, we make the product today and love the product and enjoy the brand. And so had the opportunity to acquire it.

It's a little bit out of what I've said that we're looking for in general.

We look for something that's larger than that.

But this is a product that we've been making, and if you tasted it, it's really, really good.

I like the brand.

I like the opportunity to be able to grow it not just in Retail, but in Food Service as well. And I like its clean label, honestly. There's just a lot about it, the product that I like.

It’s small.

It's much smaller than what we've been looking at, but it was just a nice tuck in for our organization.

Operator^ Our next question comes from Todd Brooks from The Benchmark Company.

Please go ahead.

Todd Brooks^ First question for me, and this is just to get my mind around the gross margin performance in the quarter and the normal seasonal pattern that we would see would be gross margins that were 500 basis points stronger for the second half of the year. How do we think about the improvement? I know Ken, you're staying anchored to the 30%, but that based on the historical seasonality seems like a low bar to clear.

So how do you want us thinking about the seasonal gross margin performance in the second half of the year?

Ken Plunk^ Yes. It was an exceptional quarter. Margin performances were a lot of things, Todd, are really starting to work together.

It's the mix of what we're selling is the efficiencies that we're gaining in our production facilities.

We're doing a much better job of leveraging the capacity of each facility really across the product categories. Gross margin improved significantly year-over-year. And we finally I think got pricing calibrated with cost really well.

So all that working together really led to one of the best second quarters in terms of margin in the last 10 or 15 years for the Company.

It sets us up really nicely for the full year.

I certainly expect when we say 30% or better, I think I expect it to be the better.

We go into Q3 and Q4 where I expect margins, if you remember last year they were very strong.

I expect our Q3, Q4 this year to be probably similar to a year ago, because the comparability is on a different kind of scale than it was this Q2, last year Q2. That ought to translate into us doing potentially up to 31% of sales for the year.

We can execute that.

Dan Fachner^ Todd, we've had a lot of conversations about what we've been doing here at the organization and really transforming the model. And gross margin is one of those areas that we're keenly focused on from sales to operations to finance, and it's nice to see it really working. And that's what we saw in this quarter.

Todd Brooks^ On a longer-term basis, Dan, with the new lines that you guys invested in last year that you're producing higher margin products on with the success with cross selling.

What in that kind of three- to five-year horizon is the gross margin kind of profile for this business as you guys are thinking about the longer-term vision of the operating model?

Dan Fachner^ Well as we said, we absolutely believe that we can continue to grow that margin, right? And we'd love to see us somewhere at some point in that mid-30s range.

I think we're doing all the right things. The teams are focused on efficiencies in the plans. The new lines are working.

Our sales group is understanding pricing better than they ever have before. The finance teams come alongside and help shape that as well. And so, we're hopeful, as we've said that we knew we could get to 30 and what the next milestone is.

I would love it to be in that mid-30s over the next four to five years.

Ken Plunk^ Yes.

I think Todd one of the keys to that will be to spread out the seasonality for Dippin' Dots. And we mentioned, Dan mentioned in his script, a number of big wins that are coming in that business down the road, particularly in theaters.

If we can spread that sales out in Q1 and Q2 of our fiscal year, then that starts to build towards even stronger gross margins on a yearly basis.

Todd Brooks^ And then one more and I'll jump back in queue. Ken, you talked loosely about commodities kinds of wins and losses in the quarter, but can you talk about what the overall basket performance was in the quarter? And can you remind us, I think when we were living through the spike in sugar cost late last year that you may have been hedged through the second quarter here.

So just wondering the second quarter reality commodity wise and then the forward outlook that you have for commodities in the back half of the year?

Ken Plunk^ Yes. I couldn't say enough positive things about what our procurement organization is doing to get ahead of some of these things. Sugar was double-digits a few months ago, it's come down, it's like I think it's around 6%, 6.5% for us.

But we were managed against that with contracts in place and we are in a good position to leverage where those prices are in the six months as well. So we're not locked into old prices and we're able to react to that. So feel good about our position there.

We've done a good job of locking in supply and cost on chocolate, which is probably the biggest commodity ingredient challenge for us and many others that use chocolate. The good news there is about half of that is it built in the contracts where we pass increases, decreases on to the customer.

But we have that well managed. If you look at Q2, probably on a net basis, we were slightly favorable in terms of inflation, deflation.

As we look outward, it's really focusing in on what inflation continues to do. I think you saw the latest CPI numbers are about 3.5%. I don't know that anybody sees total inflation getting down to two anytime We'll probably, food is doing a little bit better than that, more in the 2, 2.2.

So if I had to project out, I'd probably say net, net, we may see inflation of around 2% to 2.5% as we look forward. But we're in good shape, where we need to be to lock in and protect ourselves.

Dan Fachner^ I could just echo something that Ken said as well. Really proud of what that team is doing. Another area where we're really transforming the Company, we brought in a lead for procurement about a little over a year ago and he's just doing a tremendous job leading that group and helping us get better in ways that we needed to get better.

Operator^ Our next question comes from Connor Rattigan from Consumer Edge.

Please go ahead.

Connor Rattigan^ So Ken, you called us an inventory build in the quarter. I guess, I was just curious maybe how much of a tailwind was that inventory build? And were there maybe any other one-time items like pull-forwards or anything like that that drove the top-line? And just thinking about that in total, I guess, also, with all these new business wins that you guys called out, should we need to start thinking about the top-line as maybe trending back to that, pre-COVID mid-single-digit growth?

Ken Plunk^ Connor, we talked about this in Q1, kind of the opposite effect, particularly in areas like frozen novelties where you're in the winter months, but a lot of dialing back of inventory. And in the second quarter, I think as people look forward to spring and summer, we saw a little bit of that being trued up, which I think benefited us.

We also like in frozen novelties saw really nice growth in Dogsters and in Icee novelties. Those were all benefits as well. And really some of the work we've done and Dan talked about this and improving on time and in full metrics with our supply chain changes, reduced some of the ODA fees that we were paying.

So that benefited that sales number as well because those were deductions that we were taking in the prior year.

So it's a combination of a lot of things that are working well and worked well in the quarter. And hopefully, it's a signal for what our customers kind of see as it relates to kind of the entertainment areas and people getting out and buying in Q3 and Q4 and in the spring and summer that the outlook is that they'll see some improvement there.

I mean I know the consumer many retailers have been a bit stretched, but I think there's some anticipation that some of that may improve.

In fact, I know the outlook on travel is pretty strong based on something I read this morning.

So it's a combination of many of those things that benefited us in the quarter.

Connor Rattigan^ So I guess also too in the sort of in the same vein, we've heard from numerous other reporters that there appears to be a widespread slowdown in foodservice traffic. And I know you guys called that out pretty substantially last quarter, but it was sort of noticeably absent from this quarter's commentary.

I guess, what are we seeing on year-end and this traffic still down and it's not what do you think change?

Dan Fachner^ Conor, we're certainly in an interesting environment with consumers, right? I kind of call it like choppy waters or pickle customers.

We had a great quarter, right? Q2 was a really strong quarter for us, and we didn't see that nearly as much we did in Q1, but we're watching it closely.

We think that as we've said over the past three years, we have a product that is almost an experiential kind of product.

And so, often you might cut back at the grocery store or in the basket, but you might still buy the group and I see on the way home or you might get a churro or you might get a pretzel as a reward or a treat, something out of the ordinary.

We had a really good quarter.

We're going to watch the consumer closely.

We'll react to it if we see some downturn, but our teams are keenly aware. And again, I just call it kind of a little bit of choppy waters when it comes to consumer.

Connor Rattigan^ And if I can just squeeze one more in real-quick.

So on the RDC, congrats on getting all three of those up and running as a big, big, long running accomplishment.

So I noticed that you mentioned only about 80% of product is flowing through that system.

I guess just wanted to check-in on the remaining 20%.

I guess, is that just going to take maybe a little bit longer to get through and that's kind of what the puzzle is to get you down to that 10% distribution margin number or are you guys maybe growing so fast that you kind of just need that excess capacity?

Dan Fachner^ Well we need more capacity than just the three RDCs.

We'll probably use an additional RDC when it's all said and done, not one that we own, but one that we use down in Florida market.

But we still have some that we need to shut down. Trying to get that fine-tuned is one of those things that we're working on right now. The team has done a tremendous job, and you can see it in our numbers almost across the board.

But we will continue to shut down some of those other 3PLs over the next three to six months.

Ken Plunk^ Yes. Connor, just a reminder, even with this new structure, there will still be maybe six to eight facilities that we'll use to move product in and out, whether it's 3PL regionally located.

So it's not necessarily just going from where we were just three. There still be a few other facilities as well but that 80% will probably build a little bit higher as we move forward also.

Operator^ Our next question comes from Andrew Wolf from CL King.

Please go ahead.

Andrew Wolf^ I wanted to ask a revisit on the gross margin. Could you tell us either if it's gross price, how much price was in there or net of mix? I don't know how you guys communicated about that, but you did, I think, in the release call out price and mix, first listed it first, which often means was the biggest contributor.

So I'd just like to get a sense of that versus maybe volume?

Ken Plunk^ Yes. Well let me see if I can answer that in a few ways. One, I want to be clear, each of the three segments had positive volume growth.

So units were up in all three of the business areas. Pricing that we've been taking with the exception of the pricing we take every January with Icee, and I think we took one in January with Dippin' Dots. The other pricing is more surgical.

So we're having to do a few surgical things with chocolates, we've done some with sugars but nothing wholesale. So when you think about margin for the quarter, I don't really have it kind of broken out Andrew, or I could say this much as price, as much as this.

I can just tell you, that when we kind of walk through it, it's a combination of really all of the above. The new business we have in Churros is driving really good margins for us.

We've really done a lot to improve the production efficiencies in our bakery facilities. That is improving margins on bakery items. Some of the automation we put in is also starting to drive benefits in that way.

So we're just finally getting to the point where these initiatives we've had whether it's procurement, whether it's operations, whether it's margin management and sales, and we manage mix and the products we grow. That is all really working nicely together to get us to the margins that we reported this quarter.

Andrew Wolf^ I just wanted to ask on, I guess, Subway. It looks like they started announced it sort of mid to late January and at least from my observation started advertising pretty heavy later in the quarter. How should we think about the just kind of, because you gave us a number for Subway, how that run rate can -- is that understated as a run rate? Or do you think there was a bunch of trial and maybe like how should we think about the $6 million or so in sales you called out going forward?

Dan Fachner^ It's a great new piece of business for us, Andrew, for sure. I think they're still dialing in on what that means even to them. The positioning of where we're at with that Churro is great. It's there's three tiers to the foot long pricing and we're at the bottom tier of that.

And we've been able to because of kind of foreseeing the need in Churros and the new lines that we've had, we've been able to keep them in stock where a couple of the other areas struggled with that, which might even turn out to be an opportunity for us in some ways.

So I think they're still dialing in on it. I don't know that we have an exact number that we'd be able to guide you with that particular customer, but we love the positioning and believe that we have some opportunities with them internationally even.

Operator^ Our next question comes from Robert Dickerson from Jefferies. Please go ahead.

Robert Dickerson^ Dan, you said a lot today. Business is doing great. So congrats like everyone else has said.

I guess question I have, you kind of make these comments about like portfolio positioning and kind of indulgent treat that frankly a lot of your products are still affordable.

As was brought up before, lot of companies talking about some pressure in food service, restaurants, et cetera.

But at the same time, you're saying, there are a lot of new business wins like Subway comes up, Plunk said in the prepared remarks, like handhelds, frankly, gross was off the charts because the new mass merchant business. Dave & Buster's you've spoken to before. Dippin' Dots sounds like it has a nice little runway even through the back half of this year.

So I'm just curious like would you characterize this as like demand broadly in the market could be a little softer in different parts, but given our product portfolio and these new business wins, that clearly, we're doing better.

And then also I'm curious, as you talk to the retailers, are the retailers saying, yes. Like, we really haven't seen this office in your business.

So absolutely, we're going to blast that out in all our C stores.

I'm just kind of trying to navigate kind of like why it's doing better, and then also combine it kind of with this new business upside potential.

Dan Fachner^ Well I do think you hit it on the nose there, Rob. And good morning. Thanks for the call.

I do think you hit it on the nose though.

Our business is diversified enough that, one, we are an indulgent and we're a treat and a reward. And so, I don't think we get as impacted as some of the things that are more staples that people are cutting back on. And I love what our team is doing with innovation and new products that we're releasing that are selling really well. And then kind of the third leg to that is the sales team bringing new opportunities to the business, which is something that we've been driving on.

It's really part of the strategy that we have been laying out over the last three years or so, and it's really come into play. And I talked about cross-selling several times and even got the questions, can you really make that happen because it's not easy to make happen, but it is happening here at J&J.

We're seeing the sales team really work with one another to be able to bring new products and their customers that we deal with today, and they're working really hard at it.

I'm proud of the sales team.

I'm proud of the marketing team and the way that they brought innovation.

And I think we have the fortunate thing of having products that are indulgent treats, that are experiential and all of those are working together. The consumer is a concern.

We would, Ken and I aren't sitting here being naive that it's soft out there in some ways, but that's not an excuse for us not growing sales. And that's what you would hear within our organization.

We're going to continue to drive other areas even if it is soft out there.

Robert Dickerson^ And then I guess just a follow-up question kind of around the demand landscape. You are entering or let's say almost entered kind of what we normally consider your best part of the year.

Some of the amusement parks have already opened. It seems like movie traffic maybe is a little bit still light. So I kind of like where we sit today, I guess, like, as you got through April.

I've been asked the same question every year this time of year. Like, would you say that kind of demand that landscape, as you kind of think for the next few months with respect to amusement parks and the other seasonal dynamics in the business seems to be fairly sound like pretty good?

Dan Fachner^ I think we're positioned really well. Of course, you get into these six months and weather plays a big part in it.

So if the weather gods can shine on us and I mean that shine on us, have that sun out there and keep people to the parks, the amusement park industry is forecasting a pretty good season. The movie industry, we hadn't talked about a little bit, it has been soft and that strike did affect the movie industry and they're expecting kind of a softer year overall, down 15% or so.

But it builds as you get to the latter half of the year as new movies start to be released. We're kind of in that lull time right now but we expect that to come back more in the fourth quarter or first quarter of our fiscal 2025. But we're investing in that group.

We're investing in the movie industry because we saw before the strike when you have the right movies in place, people are willing to come back out to the movies like the Barbenheimer effect last year. And so, we're seeing some good growth there with our

Dippin' Dots brand. But I think we're in good position as we go into the core summer months.

Operator^ Thank you. I am showing no further questions at this time. I will now turn it over to Dan Fachner for closing remarks.

Dan Fachner^ Great. Thank you very much. I appreciate that and I appreciate everybody's questions today. So looking ahead, we remain focused on executing our strategy including maximizing every sale and new business opportunity to further grow our core brands, while investing in our capabilities and resources to improve our overall operations.

While we are closely monitoring consumer and inflationary trends, we expect to build momentum through the second half of fiscal '24 and remain excited about the many opportunities ahead of us to deliver long-term value to our employees, partners, and shareholders. In the interim, should you have any questions or wish to speak to us, please contact our Investor Relations firm, JCIR, at 212-835-8500. Thank you very much.

Operator^ Thank you for your participation in today's conference. This does conclude the program. You may now disconnect.