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Lancaster Colony Corp. (LANC)

Q1 2023 Earnings Call

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Andrew Wolf

Analyst, C.L. King & Associates, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Rocco, and I will be your conference call facilitator today. At this time, I would like to welcome everyone to the Lancaster Colony Corporation Fiscal Year 2023 First Quarter Conference Call. Conducting today's call will be Dave Ciesinski, President and CEO; and Tom Pigott, CFO.

All lines have been placed on mute to prevent any background noise. After the speakers have completed their prepared remarks, there'll be a question-and-answer period. [Operator Instructions] Thank you.

And now to begin the conference call, here is Dale Ganobsik, Vice President of Corporate Finance and Investor Relations for Lancaster Colony Corporation.

Dale N. Ganobsik

Vice President-Investor Relations & Corporate Finance, Lancaster Colony Corp.

Thank you. Good morning, everyone, and thank you for joining us today for Lancaster Colony's fiscal year 2023 first quarter conference call. 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.

Also note that the audio replay of this call will be archived and available at our company's website, lancastercolony.com, later this afternoon. For today's call, Dave Ciesinski, our President and CEO, will begin with a business update and highlights for the quarter. Tom Pigott, our CFO, will then provide an overview of the financial results. Dave will then share some comments regarding our current strategy and outlook. At the conclusion of our prepared remarks, we'll be happy to respond to any of your questions.

Once again, we appreciate your participation this morning. I'll now turn the call over to Lancaster Colony's President and CEO, Dave Ciesinski. Dave?

David Alan Ciesinski

President, Chief Executive Officer & Director, Lancaster Colony Corp.

Thanks, Dale. And good morning, everyone. It's a pleasure to be here with you today as we review our first quarter results for fiscal year 2023. In our first quarter, which ended September 30, we were very pleased to report both record sales and higher profits. Consolidated net sales increased 8.5% to \$426 million, while consolidated gross profit improved 7.2% to \$99.1 million. As we've foreshadowed on our Q4 call, our sales for the quarter were unfavorably impacted by our July 1 ERP go-live, which shifted an estimated \$25 million of net sales into our fiscal fourth quarter.

The Retail segment's first quarter net sales of \$223 million were flat versus prior year and compared to strong growth of nearly 16% in the same period a year ago. Advanced ordering ahead of our ERP go-live accounted for an estimated \$11 million in Retail net sales that were shifted into our fiscal fourth quarter. Top performing product lines in the first quarter included Marzetti refrigerated dressings and caramel dips. During the period, we also added to our growing licensing program with the launch of a new larger size of popular Chick-fil-A sauce and the exciting new launch of Arby's Sauce and their iconic Horsey Sauce.

Retail net sales reflect the benefit of pricing actions taken to offset inflationary cost, including our most recent round of pricing for Retail dressings and sauces, which took effect in early August. Sales volumes measured in pounds shipped were down 15%, as impacted by three primary factors. First, our decision to exit some less profitable product lines during fiscal year 2022; second, the advance ordering ahead of our ERP go-live; and third, demand elasticity attributed to inflationary pricing.

Excluding the product line rationalizations and advance ordering, Retail sales volume declined about 7%, which was in line with our expectations for demand elasticity. IRI data for our first quarter showed share gains for Sister Schubert's dinner rolls and Marzetti refrigerated dressings. Sister Schubert's share of the frozen dinner roll category increased 290 basis points to 53.9%, and Marzetti share for refrigerated dressings' category added 190 basis points to 23.8%.

In summary, Q1 top line results for our Retail segment reflect our pricing actions, strong performance from our Marzetti brand in additions to our licensing program, which were offset by product line rationalizations, demand elasticity and advance ordering ahead of our July 1 ERP go-live. In our Foodservice segment, net sales grew over 20%, driven by our pricing actions, along with volume gains for select customers and our mix of national accounts. Advance ordering ahead of our July 1 ERP go-live accounted for an estimated \$14 million and Foodservice net sales that were pulled forward into our fiscal fourth quarter ended June 30.

Excluding the advance ordering, our Foodservice segment volumes were down 1% in fiscal Q1, which compares favorably to NPD CREST data for the quarter, which showed restaurant industry transactions were down in the low- to mid-single digit percentage point range for the period. During Q1, we continued to experience high levels of inflation for raw materials, packaging and freight. That said, we have made great progress through our pricing actions where our PNOC, our pricing net of commodities, was favorable versus the prior year as we've begun to recover some of the unfavorable inflationary cost impact we experienced last year.

This progress is reflected in our Q1 gross margin, which reached 23.3%, a sequential improvement of 150 basis points versus our fiscal fourth quarter. We will continue to focus upon improving our financial performance through productivity gains in our supply chain and revenue growth management. My sincere thanks to the entire team

here at Lancaster Colony for their tremendous efforts this quarter and their contributions to our improved financial performance.

I'll now turn the call over to Tom Pigott, our CFO, for his commentary on our first quarter results.

Thomas K. Pigott

Vice President, Chief Financial Officer & Assistant Secretary, Lancaster Colony Corp.

Thanks, Dave. Overall, the results for the quarter exceeded our expectations. The company's strong top and bottom line results were driven by successfully implemented pricing actions that offset inflationary costs as well as improved fundamentals. First quarter consolidated net sales increased by 8.5% to \$425.5 million. The growth was driven by pricing actions in both segments. The revenue growth was partially offset by the impact of the customer pull forward of shipments into our fiscal fourth quarter ended June 30. If you will recall, customers increased their orders for deliveries near the end of our fourth quarter to ensure they had adequate inventory prior to our SAP implementation on July 1.

We estimate this shift of shipments reduced our first quarter net sales by \$25 million. Decomposing our 8.5% revenue growth, 16.2 percentage points were driven by pricing. This growth was offset by the customer pull forward of volume, which reduced revenue growth by an estimated 6.4 percentage points. A modest volume mix decline that was in line with our expectations accounted for the balance. The sales mix alone was favorable in both our Retail and Foodservice segments, driven by the exit of less profitable businesses and SKUs.

Consolidated gross profit increased by \$6.7 million or 7.2% to \$99.1 million. Gross profit margin declined by 30 basis points. The increase in gross profit dollars reflects favorable pricing net of commodities or PNOc in both segments. If you recall in Q1 of our fiscal 2022, we had negative PNOc as we lagged the rapid run-up in costs, particularly in our Foodservice segment. This quarter, we've begun to recover those losses. While our commodity inflation was approximately 25% this quarter, our pricing actions offset this increase in the majority of the prior year shortfall, resulting in the improved performance.

Our financial results also reflect improved fundamentals in three areas. First, both segments have eliminated lower profit business and SKUs. Second, through improved planning, scheduling and tactical execution, [ph] plant head count (00:09:34) was down for the quarter versus the prior year quarter. Third, inventory days on hand are down versus the prior year quarter and our mix of inventory is better aligned with demand trends.

These items, along with a more stable and predictable operating environment, helped to improve gross profit and our cash flow performance, and offset to these favorable drivers was the shift of revenue into our fiscal fourth quarter ahead of our ERP go-live that I mentioned earlier. We estimate that the gross profit was unfavorably impacted by \$5 million in the quarter driven by this revenue shift.

Selling, general and administrative expenses declined 4% or \$2.1 million. This decrease was primarily due to timing related changes in consumer spending. Expenditures for Project Ascent, our ERP initiative, totaled \$9.2 million in the current year quarter versus \$9.4 million in the prior year quarter.

Consolidated operating income increased \$8.8 million to \$49.3 million due to the gross profit growth and the timing related reduction in SG&A costs. Our tax rate for the quarter was 23.3% versus 24.4% in the prior year quarter. We estimate our fiscal year tax rate to be 24%. First quarter diluted earnings per share increased \$0.25 to \$1.36. The increase was driven by the growth in our operating income and the lower tax rate. Cost related Project Ascent reduced EPS by \$0.26 per share this quarter and in the prior year quarter.

With regard to capital expenditures, payments for property additions in the first quarter totaled \$24.6 million. For fiscal year 2023, we're forecasting total capital expenditures of approximately \$100 million. This forecast includes approximately \$50 million that remain for the completion of the Horse Cave Expansion project.

In addition to investing in our business, we also returned funds to shareholders. Our quarterly cash dividend of \$0.80 per share paid on September 30 represented a 7% increase from the prior year amount. Our enduring streak of annual dividend increases currently stands at 59 years. Our financial position remains strong as we are debt free with \$64 million of cash on the balance sheet.

So to wrap up my commentary, our first quarter results reflect revenue growth driven by pricing that offset significant commodity inflation. In addition, the company improved on some fundamentals in a more stable operating environment. In the coming year, we'll continue to address the inflationary costs with our revenue growth management program and maintain an ongoing focus on improving supply chain performance.

I will now turn it back over to Dave for his closing remarks. Thank you.

David Alan Ciesinski

President, Chief Executive Officer & Director, Lancaster Colony Corp.

Thanks, Tom. As we look ahead, Lancaster Colony will continue to leverage the combined strength of our team, our operating strategy and our balance sheet in support of the three simple pillars of our growth plan to, one, accelerate core business growth; two, simplify our supply chain to reduce our costs and grow our margins; and three, to expand our core with focused M&A and strategic licensing.

In our fiscal second quarter, we expect Retail sales will benefit from our expanding licensing program, while in Foodservice, we anticipate continued volume growth from some of our QSR customers. Cost inflation will remain a headwind to our financial results, but previous pricing actions, along with our cost savings initiatives, will help to offset the increased cost. I'd like to note our second quarter results will also reflect some start-up costs as we begin producing product in our newly expanded section of our dressing and sauces facility in Horse Cave, Kentucky, later this month.

Finally, I'd like to provide you with a brief update on the implementation phase of our ERP initiative, Project Ascent. As we shared previously on July 1, we successfully implemented Wave 1 of our ERP initiative. I'm pleased to share that in early October we successfully implemented Wave 2, which added our Sister Schubert's frozen dinner roll facility in Horse Cave, Kentucky, and our Marzetti dressing and sauce plant in Milpitas, California, to our new ERP network.

Overall, Project Ascent continues to proceed in line with our plans, and we look forward to continued progress, as we add more plants and warehouses to the network throughout fiscal year 2023. I would like to extend my sincere thanks to all of our teammates for their ongoing efforts in this important strategic initiative.

This concludes our prepared remarks for today, and we'd be happy to answer any questions that you might have.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Today's first question comes from Brian Holland with Cowen and Company. Please go ahead.

Brian Holland

Analyst, Cowen and Company, LLC

Q

Yeah. Thanks. Good morning and congratulations on the stellar results. If I could just start with a few boring modeling questions for Tom. Maybe, Dave mentioned the plant start-up costs in Q2. Can you give us a framework or quantify how much that should – what that number would be?

Thomas K. Pigott

Vice President, Chief Financial Officer & Assistant Secretary, Lancaster Colony Corp.

A

We don't have a specific number for Q2 that we're going to give you, but it will be, I would say, modest headwind on the results, as we look at our outlook for Q2.

Brian Holland

Analyst, Cowen and Company, LLC

Q

Okay. And then just thinking more broadly about gross margin here, which I think came in a lot better than many folks were expecting, myself included. If we look out over the balance of the year, you're going to be – your gross margin in 1Q was certainly about where it's going – where it was in Q2 through Q4 last year. So aside from the start-up cost, obviously, pricing is largely caught up to inflation. Just help me think about over the balance of the year, why – whether there's anything seasonal or transitory, et cetera, that would step down on your gross margin over the balance of the year from this, if we're using [ph] 23% (00:16:16) as a base.

Thomas K. Pigott

Vice President, Chief Financial Officer & Assistant Secretary, Lancaster Colony Corp.

A

Yeah. Okay, Brian. So great question. So, as you look at Q1, really, we were pleased with the results. And quite frankly, the execution on the supply chain side really helped to offset some of the headwinds we talked about. From an overall standpoint, as you look at Q1, our comp on PNOC was our easiest of the year. So, obviously, as you recall, last year, we were lagging the pricing impacts and we had a significantly negative PNOC impact.

So then – now as you look at the balance of the year, those comps get a little bit harder, but at the same time, we're going to have the benefit of being able to drive improved supply chain performance throughout the year. So, we're obviously pleased with the results, but we're also cognizant that from a PNOC standpoint, Q1 was our easiest comp as we go forward. I don't know, Dave, if you want to add anything to that.

David Alan Ciesinski

President, Chief Executive Officer & Director, Lancaster Colony Corp.

A

Yeah. First of all, good morning, Brian. What I would add to that is, Tom is 100% right on PNOC. And then in the back half, what we're going to have is the benefit of being able to execute more of our supply chain productivity initiatives. For example, with the Horse Cave facility starting up or going to be able to bring back in a volume that's being co-packed and make some other changes that I think are going to drive margin improvement into the business.

So the only other thing that, that sort of a structural headwind is the fact that when you look at inflation, we're continuing to see inflation on raw material packaging at the 20% range for the whole business. The dollar amount of that inflation is as high as it was last year. We're just not talking about it quite as much. So there will be sort of a structural headwind between that pricing point where we price with the dollars as you're well aware of.

Brian Holland*Analyst, Cowen and Company, LLC*

Q

Yeah. Thank you both for the color. Tom, real quick one on Foodservice. That \$30 million EBIT. Is that a good run rate going forward for that business?

Thomas K. Pigott*Vice President, Chief Financial Officer & Assistant Secretary, Lancaster Colony Corp.*

A

Yeah. So, obviously, we're delighted with the performance of the Foodservice segment and they've benefited both from recovering the PNOC as well as managing out of some less profitable business which allowed for that strong performance. You know, as you go back in time, if you go back a few years, Foodservice was earning at a similar level to that \$30 million. I think if we go back to 2020, it was around \$27 million of operating income.

So now the outlook for Foodservice, I think, in this environment is going to be interesting to monitor. I think we're keenly focused on the volumes in the top line, which is a key enabler. And I'll let Dave talk a little bit about kind of some of the things we're looking at in terms of Foodservice performance going forward.

David Alan Ciesinski*President, Chief Executive Officer & Director, Lancaster Colony Corp.*

A

Yeah. And just coming back to Tom's point there, what I would point to is really not just the EBIT, but the EBIT margin. And we feel like with the pricing actions that we've taken, we've sort of dug our way out of really what was a bit of a two-year drag on EBIT margins that we've been able to cover back against. As far as the EBIT dollars, we feel good about the outlook. I think the only bigger question out there, Brian, is what's going to happen with the economy in terms of traffic, right?

We – you – we talked about this together. We spend a lot of time here watching the price of gasoline in particular very closely, because we think it's highly correlated with discretionary income and consumers' ability to visit restaurants. So, the only other headwind that's outside of our control and we think it's likely to be a headwind is what happens on gas prices and what happens on the broader economy. And if it softens, we think it's going to result in some diminution on Foodservice business.

Brian Holland*Analyst, Cowen and Company, LLC*

Q

All right. Appreciate that, Dave and Tom. If I could sneak one more in, Dave, just looking at the pull back in consumer promotion spend, I guess in 1Q, I just want to make sure I understand the rationale behind that. And just kind of thinking about the balance here, you're getting the pricing, elasticities are hanging in there, but costs are rising. So I guess a two-part question, what is your confidence that you can take more pricing if needed? We're hearing other food companies are doing that right now. And two, should we expect you keep a lid on consumer promotion spend in the near term, either just in response to elasticities or as an offset to the pricing that's coming through with a cost inflation?

David Alan Ciesinski*President, Chief Executive Officer & Director, Lancaster Colony Corp.*

A

Yeah. Well, here's maybe how I would think about it. If you go down at the operating income line, there was a timing benefit that hit G&A associated with the reduction in our marketing. But that's strictly a timing benefit. We expect to be back in spending...

Brian Holland

Analyst, Cowen and Company, LLC

Okay.

Q

David Alan Ciesinski

President, Chief Executive Officer & Director, Lancaster Colony Corp.

...against that. Right? That's a Q1 benefit that you're seeing in there that we don't think it's going to stick for the year. And we're committed to continuing to support our brands with relevant marketing. Now, promotions like trade promotions, what I would tell you is, we are promoting, maybe not necessarily back at the levels that we were pre-pandemic, but where we are promoting, we're taking out promoted price points.

So as we're entering the important holiday season for particularly our baked businesses, Sister Schubert's and maybe to a lesser degree, New York, what you're going to see as our promoted price points are moving up in line with a lot of what you're seeing from the rest of our peers. And that's an area where we're looking at our base price, we're looking at our promoted price, we're looking at the average price versus peers, and we're making sure we're capturing margin where we can. But we want to make sure that we're remaining in the consideration set for the customers that we think are most important to our business.

Brian Holland

Analyst, Cowen and Company, LLC

Thanks. I appreciate the time as always. I'll leave it there.

Q

Thomas K. Pigott

Vice President, Chief Financial Officer & Assistant Secretary, Lancaster Colony Corp.

Thanks, Brian.

A

[indiscernible] (00:22:54)

David Alan Ciesinski

President, Chief Executive Officer & Director, Lancaster Colony Corp.

Thank you, Brian.

A

Operator: And our next question today comes from Connor Rattigan with Consumer Edge Research. Please go ahead.

Connor Rattigan

Analyst, Consumer Edge Research LLC

Hey, guys. Good morning.

Q

David Alan Ciesinski

President, Chief Executive Officer & Director, Lancaster Colony Corp.

Hey. Good morning, Connor.

A

Thomas K. Pigott

Vice President, Chief Financial Officer & Assistant Secretary, Lancaster Colony Corp.

Good morning, Connor.

A

Connor Rattigan

Analyst, Consumer Edge Research LLC

Good morning. So as we think about margins throughout the year, I think you guys quantified an expectation for about 30% inflation in fiscal 2023 last quarter. And so, it sounds like that's really trending down towards about 20% if I heard correctly, and that would seem to imply much more margin expansion versus where we were at last quarter. I mean, I guess, is that fair?

Q

David Alan Ciesinski

President, Chief Executive Officer & Director, Lancaster Colony Corp.

No. When we're looking at raw material and packaging, we've been pretty consistently saying that's in the 20% – low-20s, but – around 20%. That the dollar amount would be higher, of course. Now, when you look at other inflation that's out there, transportation, warehousing, labor, things like that, some of those are [indiscernible] (00:23:53) versus prior year, not necessarily sequentially versus where they would have been a quarter ago. Those are running higher, but we're not seeing inflation in our business closer to the 30% in the aggregate.

A

Thomas K. Pigott

Vice President, Chief Financial Officer & Assistant Secretary, Lancaster Colony Corp.

Yeah, I would just add that from a – some of that we're keenly focused on the commodity prices. As you get into Q2, we're seeing higher inflationary impacts in eggs and wheat that are going to impact that particular quarter. But overall, things are trending in line with our expectations.

A

David Alan Ciesinski

President, Chief Executive Officer & Director, Lancaster Colony Corp.

Maybe I'll just add. Connor, you didn't ask the question, but it really gets back to we are seeing the inflation. How do we feel about our ability to price? Our view now is we feel like we have the inflation that we see in the business and for the immediate foreseeable future covered in our pricing that we have in place given [indiscernible] (00:24:45) we continue to see things run, Tom's talking about eggs, wheat and otherwise, we feel like there's room to go back to our customers and have more conversations about pricing.

A

Connor Rattigan

Analyst, Consumer Edge Research LLC

Okay. Perfect, guys. That was really helpful. And then just one more from me. So from the data that we see, it looks like sales growth at Retail across the licensed portfolio really accelerated throughout the quarter for all brands on both price and volume [indiscernible] (00:25:13) difficult compares. I guess, what do you think really continues to draw consumers to your license portfolio versus maybe more cost-efficient alternatives given the well-documented pressure on the consumer?

Q

David Alan Ciesinski

President, Chief Executive Officer & Director, Lancaster Colony Corp.

No, I'd begin with the fact that they're consumer relevant brands that – and what we're finding is consumers really, really like them. They like to visit the restaurants when they can, but when they can't, they enjoy eating the same sauce products at home. So, I would begin with that. And as far as the price, it comes down to value. And what

A

we're seeing, I think, are the early stages of a bifurcation of our consumers, right, where if you sort of look at consumers in terms of those that are more affluent and those in the middle and those that are struggling, where we're seeing volume fall up across all of our categories tends to be and the consumers that are struggling, right?

The elasticities are higher there and volumes falling out. By and large, these license brands, be they Buffalo Wild Wings, Olive Garden or Chick-fil-A, all tend to skew a little bit more affluent than other brands in our portfolio. And I think much more affluent than just brands in general in a grocery store. So I think that explains why even in the face of inflation, you're seeing them continue to grow. And I would share with you that we really believe that in the case of, let's say, Chick-fil-A sauce. We've hit a great run rate on that business. We've launched the large size that's out in the marketplace. Now, we're encouraged by the early results, but it's in limited distribution, principally in Kroger and in Wal-Mart.

Most of our innovation is really going to start to hit in the back half. At the Horse Cave facilities online, we're going to be able to drive much more aggressively. So driving for national distribution on large size at Chick-fil-A, national distribution on barbecue sauce for Chick-fil-A and their sweet and spicy sriracha, the Olive Garden Caesar. We're already in distribution on Arby's, but we think there's more room to continue to price. So – but back to your original question, consumer relevant brand, and I think consumers are still finding it to be a value even at an elevated price points.

Connor Rattigan

Analyst, Consumer Edge Research LLC

Q

All right. That was great. Thanks, guys.

Thomas K. Pigott

Vice President, Chief Financial Officer & Assistant Secretary, Lancaster Colony Corp.

A

Thank you.

David Alan Ciesinski

President, Chief Executive Officer & Director, Lancaster Colony Corp.

A

Thank you.

Operator: And our next question comes from Andrew Wolf at C.L. King. Please go ahead.

Andrew Wolf

Analyst, C.L. King & Associates, Inc.

Q

Thank you and congratulations also on the trends. They're really strong obviously.

Thomas K. Pigott

Vice President, Chief Financial Officer & Assistant Secretary, Lancaster Colony Corp.

A

Thank you.

David Alan Ciesinski

President, Chief Executive Officer & Director, Lancaster Colony Corp.

A

Thank you, Andrew.

Andrew Wolf

Analyst, C.L. King & Associates, Inc.

Q

You're very welcome. I just wanted some clarification, kind of a follow-up on the SG&A being down, both year-over-year and sequentially. [indiscernible] (00:28:15) granular. You said it was only a little bit of the lower spend – consumer spend. So I'm trying to understand, is there more variable component in there that you're now better able to control, or were there some cost out and...

Thomas K. Pigott

Vice President, Chief Financial Officer & Assistant Secretary, Lancaster Colony Corp.

A

Yeah.

Andrew Wolf

Analyst, C.L. King & Associates, Inc.

Q

...some of the head count reduction in that P&L?

Thomas K. Pigott

Vice President, Chief Financial Officer & Assistant Secretary, Lancaster Colony Corp.

A

So – Yeah. So the main driver was the timing of the consumer spending. We wanted to communicate that at time because we are committed to our investing in the consumer and feel good about that spend overall. As you go forward, the way to think about it is, as we've shared in the past, some of the SAP cost, the amortization of the software and the licensing costs will have started to revert back to the base business as we've gone live on SAP. So – and we've indicated that's about roughly \$1 million to \$2 million headwind this quarter, less than it will be going forward.

So the overall outlook for SG&A is a low-single digit increase going forward as we restore the consumer spending and add that, that incremental cost on the SAP initiative. I would say broadly on SG&A we are keenly focused in terms of trying to manage that spend tightly in this environment. And there were some things that were favorable this particular quarter. But overall, our outlook is in that range.

Andrew Wolf

Analyst, C.L. King & Associates, Inc.

Q

Great. Thank you. That's helpful. So on the amortization of SAP that look – looking at your Q, it looks like it did not start yet, but it's going to be about \$1 million to \$2 million a quarter starting in the second quarter go forward. And I understand that right?

Thomas K. Pigott

Vice President, Chief Financial Officer & Assistant Secretary, Lancaster Colony Corp.

A

So the way we report the SAP cost is in the – in our Q, we report the project cost and then we break out the rest of our SG&A costs. So the project costs were about the same year-over-year. What's not as transparent there is that we did absorb a little over \$1 million of that – of what was sitting in the project cost last year into the base business because the SAP went live. And so the base business then had to absorb that \$1 million, \$1.5 million in the quarter. And that is netted into our SG&A costs excluding the SAP. Hopefully that makes sense for you. If not, we could follow up afterwards and take you through it. Yeah.

Andrew Wolf

Analyst, C.L. King & Associates, Inc.

Q

Okay. But I guess for people who may not have the benefit of following up, if we exclude the Project Ascent cost, the [ph] \$9.9 plus million (00:31:12).

Thomas K. Pigott

Vice President, Chief Financial Officer & Assistant Secretary, Lancaster Colony Corp.

Right.

Andrew Wolf

Analyst, C.L. King & Associates, Inc.

Should we take out or should we lower adjusted EBITDA by \$1 million or so, so we don't double count or is that [indiscernible] (00:31:25).

Thomas K. Pigott

Vice President, Chief Financial Officer & Assistant Secretary, Lancaster Colony Corp.

No. No. I would include that. Include that...

Andrew Wolf

Analyst, C.L. King & Associates, Inc.

Okay.

Thomas K. Pigott

Vice President, Chief Financial Officer & Assistant Secretary, Lancaster Colony Corp.

...because that's going to be an ongoing cost to the business. Thanks for the follow up. I just want to make sure that...

Andrew Wolf

Analyst, C.L. King & Associates, Inc.

Yeah.

Thomas K. Pigott

Vice President, Chief Financial Officer & Assistant Secretary, Lancaster Colony Corp.

...that amortization becomes an ongoing cost. So what you see in that project line is more the project-related costs. So we're trying to split it up to say here's what is going to be ongoing and then here's what's temporary. And the reason we're doing that is because a lot of companies capitalized a lot of the SG&A related – or the costs – a lot of the cost to [indiscernible] (00:31:56) to capitalize them on the balance sheet because they customize it the way we're implemented with a cloud-based system, the accounting guidance is that you have to expense it. So we're trying to give investors a cut of what is the project-related cost and then what is ongoing.

Andrew Wolf

Analyst, C.L. King & Associates, Inc.

Great. Thanks. I also wanted to ask to shift to just the demand elasticities by the two segments, just kind of how they – the volume declines versus pricing, and how they are trending versus internal expectations in particular?

David Alan Ciesinski

President, Chief Executive Officer & Director, Lancaster Colony Corp.

Yeah. So I'll take a shot at that and Tom can follow up afterwards. But I would tell you, let's start with Retail. They're trending very much in line with our expectations. So the overall – when you adjust for the pull forward and the discontinued items that we talked about, volumes down about 7% or so and that's very much in line – well, first of all, that's what you see in the scan data out there. And that's very much in line with our expectations, in the aggregate, when you look at the puts and takes within the portfolio.

So – and this is – we've been tracking it since we've seen inflation come on the horizon and we've been pleasantly pleased with how it's hanging in there for us and don't really see any reason for that to change, at least in the immediate term. Now, on the Foodservice side, what we look at, maybe the corollary is what's happening in terms of restaurant transactions, which is a proxy for our volume, right? Historically, we didn't have much pricing if you go back several years ago, and the growth was really led by volume. Now we've moved into a season where given the inflation, manufacturers like us are passing on pricing and concepts are pricing themselves. So sales are really kind of hard to look at and understand what's happening if you go all the way down to the consumer.

That being said, if you look at transactions for the most recent period, they're down in the low- to mid-single digits overall. QSRs doing a little bit better than that. I would say in the aggregate, they'd be in the – down in the low-single digits. And then you pull it apart one more layer, and what you find is there are concepts that are continuing to drive transaction growth, Chick-fil-A among them, Taco Bell among them, and some others. And then what you see is the remainder, the ones that are probably down, low to mid.

So given our mix of QSR customers and then within QSR our mix, we're continuing to see that hang in there for us. Now, I would tell you, what I watch most closely is what's happening with gas prices. And if you go back and you look at the trends over the summer on gas prices, as gas prices rolled up, March, April, May and then peaked in June, we could see a downturn in transactions that almost correlated perfectly across every customer independent of their start point, as gas prices spiked. And then as gas prices then receded and we saw traffic start to resume.

So what I would encourage you to track is what we're looking, because we think it's the closest proxy for this is what's happening on gas prices. That gives us an understanding of the pressure consumers are feeling day in and day out. But that's what we're watching.

Andrew Wolf

Analyst, C.L. King & Associates, Inc.

Q

Excellent. Thanks. Quick follow-up on – actually on the head count reduction.

Thomas K. Pigott

Vice President, Chief Financial Officer & Assistant Secretary, Lancaster Colony Corp.

A

Yeah.

Andrew Wolf

Analyst, C.L. King & Associates, Inc.

Q

So, it sounds like that was all within COGS and within the production lines and not within...

Thomas K. Pigott

Vice President, Chief Financial Officer & Assistant Secretary, Lancaster Colony Corp.

A

Yeah.

Andrew Wolf

Analyst, C.L. King & Associates, Inc.

...SG&A. Okay.

Q

Thomas K. Pigott

Vice President, Chief Financial Officer & Assistant Secretary, Lancaster Colony Corp.

Yeah. Yeah.

A

David Alan Ciesinski

President, Chief Executive Officer & Director, Lancaster Colony Corp.

Yeah. And I'll give you just a little bit of texture on that. If you remember a year ago, we were in a post-pandemic recovery where we saw a dramatic uptick in transactions, back to transactions. In QSR customers, they were up 60%, 70%, 80% mid-scale and casual dining were up 200% and 300%. So the whole industry, us included, chased that volume. We added head count. We added shifts in order to service our customers. And then, what we found is that as the rest of the economy opened back up, that the transaction volume started to normalize. So, as we look at the period against period comparison, we and the rest of the industry [indiscernible] (00:36:25) head count and over time to keep up with that surge and demand.

A

And then we quickly realized that it wasn't going to be long lasting. It was going to normalize. And we began to work that back down into something that we felt was appropriate. But to Tom's point in the earlier comments there, when you look at it period on period, we've made that adjustment. We trimmed sales just to make sure that we felt like we had the appropriate head count, not too much, not too little, to service the business sustainably.

Andrew Wolf

Analyst, C.L. King & Associates, Inc.

Got it. Thank you for that – all those explanations. Appreciate it. I'll get back in the queue. Let some other folks get on the call.

Q

David Alan Ciesinski

President, Chief Executive Officer & Director, Lancaster Colony Corp.

Okay.

A

Andrew Wolf

Analyst, C.L. King & Associates, Inc.

Thank you.

Q

Thomas K. Pigott

Vice President, Chief Financial Officer & Assistant Secretary, Lancaster Colony Corp.

Thanks, Andrew.

A

Operator: Thank you. As there are no further questions, we will now turn the call back to Mr. Ciesinski for his concluding comments.

David Alan Ciesinski

President, Chief Executive Officer & Director, Lancaster Colony Corp.

Well, thank you, everyone. It's been a pleasure to spend some time with you this morning. And we look forward to getting together with you early in the next calendar year to share our Q2 results. So in the meantime, stay safe and we hope that you have a very happy upcoming holiday season.

Operator: Thank you, sir. And ladies and gentlemen, this concludes today's conference call. We thank you all for attending today's presentation. You may now disconnect your lines and have a wonderful day.

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