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Lancaster Colony Corp. (LANC)

Q1 2019 Earnings Call

CORPORATE PARTICIPANTS

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OTHER PARTICIPANTS

Michael W. Gallo
Analyst, C.L. King & Associates, Inc.

Frank Camma
Analyst, Sidoti & Co. LLC

Brian P. Holland
Analyst, Consumer Edge Research LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Denise, and I will be your conference call facilitator today. At this time, I'd like to welcome everyone to the Lancaster Colony Corporation Fiscal Year 2019 First Quarter Conference Call. Conducting today's call will be Dave Ciesinski, President and CEO; and Doug Fell, Vice President and CFO. All lines have been placed on mute to prevent any background noise. After the speakers have completed their prepared remarks there will be a question-and-answer period. [Operator Instructions] Thank you.

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

Dale N. Ganobsik
Vice President-Investor Relations & Treasurer, Lancaster Colony Corp.

Thank you, Denise. Good morning, everyone, and thank you for joining us today for Lancaster Colony's Fiscal Year 2019 First Quarter Conference Call. Let me begin by reminding everyone that our discussion this morning may include forward-looking statements, which are subject to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements are subject to a number of risks and uncertainties that could cause actual results to differ materially, and the company undertakes no obligation to update these statements based upon subsequent events. A detailed discussion of these risks and uncertainties is contained in the company's filings with the SEC.

Also note that the audio replay of this call will be archived and available at our company's website, lancastercolony.com, later this afternoon.

With that said, I'll now turn the call over to Lancaster Colony's President and CEO, Dave Ciesinski. Dave?

David A. 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 2019. Doug and I will provide comments on the quarter and our outlook. Following that, we'll be happy to respond to any of your questions.

For the quarter, we are pleased to report that consolidated net sales increased 5.9% to a first quarter record \$316.7 million versus \$298.9 million last year. Retail net sales grew 40 basis points to \$162.7 million driven by price increases taken in response to higher transportation and commodity costs and volume gains on dressings and sauces sold under license agreements.

Retail net sales also benefited from reduced trade spending and coupon expenses compared to the prior year. It is worth noting that organic sales growth in Q1 of fiscal year 2018 was a relatively strong 4% and included some benefit from the timing of seasonal shipments of caramel dips and frozen dinner rolls that did not recur this year.

Foodservice net sales advanced a solid 12.5% to \$153.9 million, as the segment benefited from a number of factors including: first, higher sales volume from existing business as the strong U.S. economy drove improvement for the overall restaurant industry; second, incremental sales from new business; third, increased sales resulting from temporary service issues experienced by some of our Foodservice competitors; and finally, pricing actions that we implemented beginning in January to help offset freight and commodity cost.

Sales from limited time offerings to our Foodservice national accounts were down slightly versus prior year. Also note, in last year's Q1 fiscal year 2018, the Foodservice segment's top line performance was relatively weak with a reported sales decline of 1.4%.

Consolidated gross profit grew \$5.7 million, or 7.6%, to \$81.2 million as the increased sales volumes, pricing actions, lower trade spending, and reduced coupon expenses; continued cost savings from our lean Six Sigma program; and improved operating efficiencies more than offset higher freight and commodity cost. SG&A expenses held nearly even at \$32.1 million compared to last year \$31.3 million, as reduced spending for digital advertising and lower brokerage costs were offset by incremental investments in personnel to support our continued growth.

Consolidated operating income increased 11.2% to \$49.1 million from \$44.2 million in the prior year, driven but the gross profit improvement. Consolidated operating margin improved 70 basis points to 15.5%. Retail operating margin increased from 20.3% to 20.9%, while Foodservice segment operating margin increased from 10.7% to 12.3%.

Net income was \$39 million, or \$1.42 per diluted share, compared to \$29.4 million, or \$1.07 per diluted share, last year. Note that this year's lower tax rate of 22.6% compared to last year's 34.2% primarily reflects the favorable impact of the Tax Cuts and Job (sic) [Jobs] (05:38) Act of 2017. The regular quarterly cash dividend was continued at a higher level of \$0.60 per share set in November of 2017.

Turning our attention to Retail sell-through data from IRI for the 13 weeks ending September 30, 2018, we maintained our share leadership position in all six of our key categories and increased our share position in four of those categories.

With that, I would now like to turn it over to Doug to make some comments on the balance sheet and related items.

Douglas A. Fell

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

Thank you, Dave, and good morning, everyone. Consistent with our past commentary, our balance sheet remained strong. I will make a few brief comments on the more meaningful changes in our balance sheet since June 30th. From a high-level perspective, nearly all of the increase in our cash balances of \$12 million since June 30th can be summarized as follows. Cash provided by operating activities of \$41 million offset by regular dividends of \$16 million and property additions of \$10 million.

In general our accounts receivable balances remain in line with sales volumes and our expectations. Consistent with past quarters, our agings remain solid. The noticeable increase in inventory was anticipated and reflects the impact of several items, including increased sales volumes, continued higher input costs from commodities, balancing of production within our plants for seasonal inventory builds, and adjustments to our days of forward coverage to maintain high levels of customer service.

Regarding our recent acquisition of Bantam Bagels, we believe its impact on our net working capital requirements to be relatively minimal throughout this fiscal year. As I mentioned, Q1 cash expenditures for property additions totaled \$10 million. As we conveyed in our August earnings call, we anticipate capital expenditures to be in the range of \$60 million to \$80 million for fiscal 2019, and in general, we'll focus on projects to increase capacity and productivity. The most significant projects planned for fiscal 2019 is to expand production capacity to meet increased demand for our Sister Schubert's products. This project is just getting underway, and has a projected completion date towards the middle of fiscal 2020.

As we conveyed previously, other notable projects to be completed in fiscal 2019 involve a dedicated innovation center and packaging capacity for our Retail dressings. The innovation center is well underway with a completion date targeted for this spring. Additionally, our packaging capacity projects are progressing as planned. Consequently, we anticipate our cash outflows for CapEx to increase as we move through Q2 and into the second half of fiscal 2019. At this point, we do not anticipate any meaningful CapEx investments in fiscal 2019 for the recent Bantam Bagels acquisition.

Depreciation and amortization expense totaled \$7 million for Q1. In our last earnings call, we projected a level of about \$30 million for fiscal 2019. However, this annual total is expected to move slightly higher in the second half to reflect the depreciation and amortization related to the Bantam acquisition. We will provide you an update in our next earnings call.

As we conveyed last quarter, the increase in our accounts payable since June largely reflects an emphasis by our procurement team to extend payment terms with our vendors in conjunction with our ongoing lean Six Sigma efforts. With respect to our balance sheet capitalization, not much has changed since our last commentary. We continue to have no debt, over \$674 million in total shareholders' equity, and nearly \$218 million in cash and equivalents. Borrowing capacity under our credit facility remains at nearly \$150 million.

Finally and broadly speaking, as expected, our income tax provision for our first quarter was favorably impacted by the Tax Cuts and Jobs Act. Our blended effective rate for our first quarter was estimated to be 24%, yet our actual tax rate was 22.6%. The favorable difference of 140 basis points is largely due to the impact of the recent accounting guidance on the tax treatment of employee stock option exercises. Recent tax law changes in a certain state also served to lower our overall effective tax rate.

Looking forward, at this time we continue to estimate our effective tax rate for fiscal 2019 to be approximately 24%. However, the timing and magnitude of employee stock option exercises could favorably influence our ultimate effective rate.

As always, thanks for joining us this morning. I will now turn the call back over to Dave for his concluding comments. Dave?

David A. Ciesinski

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

Thanks, Doug. We were very pleased with the strong sales growth in our Foodservice segment that led to a record level of consolidated net sales in the fiscal first quarter. We're also encouraged by the improvements in both gross margin and operating margin for the quarter resulting from our continued efforts to offset inflation through net pricing and the growing momentum of our lean Six Sigma program.

Looking ahead to fiscal second quarter, historically our biggest sales quarter of the year, we expect higher freight costs and packaging costs to persist. Commodity inflation should turn closer to neutral as we begin to lap some of the notable increases that we experienced last year, particularly eggs. As announced earlier this week, we are very excited to have added Bantam Bagels to Lancaster Colony's family of companies. We look forward to working with the founders of Bantam Bagels, Nick and Elyse Oleksak and their team, and growing together through the remainder of this fiscal year and beyond.

That concludes our prepared remarks for the day, and we'd be happy to answer any of your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from Michael Gallo with CLK. Your line is open.

Michael W. Gallo

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

Hi. Good morning, Dave and Doug.

Q

Douglas A. Fell

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

Good morning.

A

David A. Ciesinski

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

Morning, Mike.

A

Michael W. Gallo

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

Yeah. Just a couple if I may. Just to kind of dive into the Foodservice business first. I mean, obviously, very strong sales growth. I'm trying to parse out how much of this is broad-based improvement in the overall restaurant business, versus new business, versus this kind of temporary supply and service issue? And the temporary

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supply and service benefit on some of your competitors, will that still be ongoing this quarter; did you sort of get more than you thought you were going to get last quarter, or do you think you can perhaps pick up some of that permanent?

David A. Ciesinski

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

A

Yeah. Absolutely. Why don't we try to unpack that for you. The first thing I would tell you, Mike, is the breakdown of that roughly 12%, 10% of it is driven by volume, and closer to 2% is being driven by pricing. So that gives you an idea. Because you know we're going to start to lap that pricing as we end the second quarter and we begin the third quarter and thereafter. Then if you look at that remaining part of the volume, about a third of that is coming from a disruption with a couple of other Foodservice competitors. But really, the majority of that volume is driven from the business and that's really a couple of things.

One, the Foodservice team has done a tremendous job of continuing to drive their business and to secure new accounts. Our branded business which we've talked about over the course of the last number of calls has also been growing. If you remember in earlier calls we talked about how we were making a deliberate and focused effort to penetrate the college and university segments as well as healthcare; and those efforts are starting to bear fruit. That part of our business, what we call the branded part of Foodservice, is growing pretty strongly.

And then what's happening, and I'm sure you see this among the other folks that you guys are covering, Mike, is that that strong economy is helping I think everybody in Foodservice and we're seeing the benefit of that as well with our customers and that customer mix.

So I think kind of clicking in a little bit closer maybe to your question of what of this is likely to persist for some period of time, I would say, my estimation would be something closer to the midpoint of all of that. I would call it mid-single digits, because we are going to lap the pricing; that's no surprise. And as much as we like that disruption among our competitors to continue forever, we have every confidence they're going to get themselves organized and move forward.

Douglas A. Fell

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

A

And, Mike, if I might add to that, I think some of the disruption has already begin to move back to the competitor. So to Dave's point, that will come down as we work away through Q2 and beyond.

Michael W. Gallo

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

Q

Great. And then just on the Retail business, I guess when I look at the pricing that you had that you kind of put through and you obviously have [indiscernible] (15:36) shelf-stable dressing, I guess I would have thought the Retail sales number would have been a little bit better. So, do you think with some of the pricing that you ended up losing some volume that you perhaps would have had? Just help us kind of unpack why we shouldn't see better organic Retail sales.

David A. Ciesinski

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

A

Sure. I would start with, I think we knew – including the team in Retail is probably disappointed if we were all being completely honest with where we are. But some of it's to be understood. That being said, we're always focused on doing better. But let me sort of unpack it for you.

The first thing I would share is that in spite of all the struggles that we've described in earlier calls, we have been able to get a couple of points of net price realization. And when you look at those couple of points, and you sort of run them through elasticity models, as you might expect, as we take price we are losing volume, and you can see that trade-off. Now the net pick-up of that is that we are seeing an improvement on the margin line. And in our case, it's a more profitable trade-off.

I don't know if I've shared this in calls, but one of the ways we think about our volume internally is there's the market share that you own and the market share you rent. We believe that when your discounts are too deep and you're pulling over switchers but you're not making money, and you're subsidizing the overall business, that's market share that we're renting and that's not necessarily great share. As we're looking at it, as long as we continue to see the margins ticking up, we feel okay with that part of the trade-off. That's sort of the internal – the mix that we're seeing take place.

What I would also turn your attention to is we talk about our six primary categories within the Retail space. Four of those categories are actually declining. We're picking up share in those categories where we're still besting our peers, but those categories are declining. So, I think as we look at where do we go from here, what are we focused on, it's really twofold: how do we grow our brands, but how do we also make sure that our innovation is helping to grow those categories as a whole.

Michael W. Gallo

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

Q

Thank you.

Operator: Your next question comes from Frank Camma with Sidoti. Your line is open.

Frank Camma

Analyst, Sidoti & Co. LLC

Q

Good morning, guys. How're you doing?

David A. Ciesinski

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

A

Hi, Frank.

Dale N. Ganobsik

Vice President-Investor Relations & Treasurer, Lancaster Colony Corp.

A

Good morning, Frank.

Douglas A. Fell

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

A

Good morning, Frank.

Frank Camma

Analyst, Sidoti & Co. LLC

Q

Hey. Just talking about Bantam, could you just tell us, because you put in the press release it's currently about \$20 million in sales. What percentage of those sales roughly are Foodservice versus Retail? I'm just trying to get a estimate of how we should think about that falling into the model?

David A. Ciesinski

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

A

Sure. First, Frank. Well, good morning, I'll start there, and moving beyond that, talk a little bit about Bantam. If you haven't tried the product yet, you absolutely have to. It's a fantastic product, great-tasting. It basically is a authentic New York bagel that is filled with cream cheese. And it's a hand-held, it's portable, the bagel itself has all of the texture and taste of a genuine New York bagel with a cream cheese filling on the inside. So, it's a great product and it's a highly portable product.

What excited us about this is as a platform, both the brand and the product, place right in the sweet spot of where a lot of growth is. If you think of the grocery – so I'm going to start there in Retail. It's a \$3.5 billion category that in the last year is growing at about 5 points. And if you look at the last three years in compounded growth in that, it's up somewhere around 4%. So, it is a highly relevant, big, fast-growing category, and it's a product that we know how to make.

So today we don't have a brand platform that reaches into that segment and the Bantam platform does exactly that. And it's able to play across a range of different occasions. So, it's available in cream cheese but they also have a SKU – or a handful of SKUs, actually – that are filled with eggs. So, it plays in the savory space as well. So it is – for us, it's a baked product, it's a baked product that's frozen, and it's a baked product that's frozen and served in Retail. So, across all of the capabilities, it feels like it's right in our sweet spot.

The Foodservice side is the same way. So I'm going to go back to your question now, if I may. Today the business is a little bit more than 50% Foodservice and the Retail business is a little bit less than 50%. Their biggest customer where it's available today in Foodservice is at Starbucks where they've done a tremendous job of building that partnership with Starbucks.

Starbucks has been really happy with the product and we can see why. Like I said earlier, it's great-tasting. For us, the complement is I think you guys have learned and folks that follow us about the importance of our large, national accounts and the capabilities that we have there. And this important brand platform allows us entry into a really strategic, fast-growing Foodservice player.

Moving beyond that, what we also love about this, as with Angelic Bakehouse, is that the very core of the idea starts with the founders. And Nick and Elyse are about as passionate a founders and about as authentic a people as you're going to find. And we believe that following in the steps of Don Penn, the founder family from New York Bakery, and Sister Schubert (sic) [Schubert's] (21:25) and the [ph] Moreno's, (21:27) that this is just a perfect fit; a perfect fit today and as we grow into the future.

Frank Camma

Analyst, Sidoti & Co. LLC

Q

Okay. So, you touched on it quickly but let's see if we can go a little deeper. How does it currently overlap with your existing doors, if you will? So, like, I assume, yeah, \$20 million it sounds like you probably got a lot of distribution you can add there. Can you make any comments on that? I mean, compared to what you're relatively – what Lancaster is already in.

David A. Ciesinski

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

A

Yeah, well it plays in the similar space. Sometimes it's merchandised in breakfast, sometimes it's merchandised closer to rolls. There is a big opportunity obviously to build distribution there. If you look at it in terms of occasions, we don't believe that it's net cannibalistic at all in terms of the occasions [indiscernible] (22:21) that we play in. And that's just one other part of the appeal.

Frank Camma

Analyst, Sidoti & Co. LLC

Q

Okay. And do they – I'm assuming they don't manufacture in-house or do they?

David A. Ciesinski

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

A

No. Today they use a co-packer partner – a couple of co-packers.

Frank Camma

Analyst, Sidoti & Co. LLC

Q

Okay. And will you ultimately pull that in-house, or is it just too soon to tell on that?

David A. Ciesinski

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

A

It's too soon to tell. Through the due diligence process we spent a lot of time with the founders and we also spent time with the co-packer partners, and we feel very comfortable with their co-packer partners. And it may be worth saying, too, just in terms of how we're going to approach running the business. Our intention, as with Angelic Bakehouse, is to give the founders a fair amount of autonomy.

So with a business of this size, what we try to do is we put a, sort of, a board around it that meets regularly. We equip them with resources in terms of quality assurance and engineering. We work with them to make sure that everything is appropriate in place in terms of controls and [ph] SOCs (23:28) and things like that. But at the end of the day, we're very sensitive to basically squishing them with a big company. We don't want to take away from the authenticity. We can't replicate what they're able to take to a Kroger or a Target or any one of a number of other customers when they're selling.

Frank Camma

Analyst, Sidoti & Co. LLC

Q

Okay. And then flipping back to Retail for a second, what were the – if there were, I know there were some shipment timing issues – but what were the biggest disappointments as far as categories there, like, that – because you called out some strengths obviously in certain things, but was there any, like, specific category where you fell short of what you were expecting?

David A. Ciesinski

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

A

Well, one I would point to is the frozen garlic bread category continues to be soft. If you remember last year, it was about this time that we started to have issues with the co-packer. And that category has been a little bit slow to rebound. So that would be probably the one that we're watching the most closely. Sister Schubert, (sic) [Schubert's] (24:37) if you look at it, was down slightly. We picked up share. But honestly, part of what happened

last year in that business was a timing shift in that we had customers start to take inventory earlier than they are this year. So, we had a net benefit. But if I was to sort of point to areas that we're watching, that would be one.

Smaller scale but also one that we're watching with Flatout is we had secondary display in one of our large customers. So we had commercial bread and we had it in [indiscernible] (25:12) And this particular store is going towards a clean store policy so we lost some of the secondary display which took a little bit of wind out of our sales there. In every one of those cases I'd point to the fact that we're still growing share but we need to be doing better.

Frank Camma

Analyst, Sidoti & Co. LLC

Q

Okay. And the last one from me, if I could, is just on freight trends here. When do we completely laps the spike there? I mean, we got to be kind of coming up to that, right? I mean, I know they kind of continue to be inflated, but when do you completely laps that?

Douglas A. Fell

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

A

You know, Frank, it's always a little difficult to answer that precisely, but we anticipate today that we will begin to anniversary those toughest comparisons as we exit Q2.

Frank Camma

Analyst, Sidoti & Co. LLC

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Yeah. That's what I thought. Okay. That's what I assumed. Okay. Thank you.

David A. Ciesinski

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

A

You're welcome.

Douglas A. Fell

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

A

Thank you, Frank.

Operator: [Operator Instructions] Your next question comes from Brian Holland with Consumer Edge Research. Your lien is open.

Brian P. Holland

Analyst, Consumer Edge Research LLC

Q

Yeah, thanks. Good morning, everyone.

Douglas A. Fell

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

A

Good morning, Brian.

Brian P. Holland

Analyst, Consumer Edge Research LLC

Q

If I could just – most of my questions have been answered, but if I could just kind of ask a little bit about the margin backdrop here, really nice improvement sequentially and year-over-year getting the gains in an inflationary cost backdrop, awfully encouraging. As I think about rolling that forward, you talked about you expected to expand margins I think in 2019, while not giving – last quarter, while not giving specific guidance.

If I'm rolling this forward, if I'm thinking about your cost basket stabilizing in Q2, continued good coupon trade expense management, you're getting the pricing through in Retail, I know you'll lap some Foodservice stuff, but certainly as long as volumes can sort of remain maybe in that mid-single digit range and you turn that through, that should be a point of leverage for you. So I'm just thinking about the extent to which this margin trajectory can continue to accelerate from here. Maybe if you can just update us on some of the puts and takes that we should be thinking about going at least through the balance of this year.

David A. Ciesinski

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

A

So Brian, maybe I'll address it at a higher level, and then I'll let Doug double click on any of the categories specifically that he might want to speak to. I think you know, philosophically, as we set up our operating model, the objective was to use pricing as a means by which to offset inflation and to really use our Lean Six Sigma program as a means by which to drive margin improvement.

Last year, same quarter, we would have been negative on [ph] PNOG (28:05) This year, we're positive on [ph] PNOG. (28:08) So to your point that the pricing – list pricing and net pricing were getting through, trade is covering those commodities. And flipping to the other side of this, the efforts that we've put in place around Lean Six Sigma and continuous improvement are also continuing to drive results.

We're sort of at a run rate now where first quarter of last year would've been our first quarter of reporting results with the program up in place. And here again now fifth quarter with it up and running, we're sort of in that [ph] mid-7 (28:45) figures in the quarter of benefit from Lean Six Sigma. And honestly, we can look pretty far into the future and I don't see any diminution on that.

I think the way that we're going to get it if it's going to evolve and we've talked about that on the call. So bringing this in back all the way to the beginning of your question, do we see sort of a sunset or some slowdown in our ability to drive margins? From where we see today, I don't see it. It's a quarter-by-quarter game as we work our way through the puts and takes on specific commodities, but the overall playbook seems to be working for us.

And maybe, Doug, I'll turn it over to you, if you wanted to provide additional texture on some of the puts and takes on commodities and things.

Douglas A. Fell

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

A

Sure. Brian, maybe just to add a little bit to Dave's comments. On the commodity front, Dave was correct in that we would expect to see some relief in commodities as we work our way through Q2. As you'll recall and as we mentioned, eggs were particularly strong in Q2 of last year due to the European issues. Sitting here today we don't expect that similar run up that we saw last year. So again, commodities should be a neutral input as we work our way through Q2.

In the back half of the year, though, sitting here today, we do anticipate some continued inflation to occur on the commodities side, largely coming from resins and packaging. The corrugate markets and so forth, as you know, are still showing signs of inflation sitting here today. As we also mentioned, freight is still anticipated to be

inflationary as we work our way through Q2. Hopefully, we continue to see some levels of relief in the freight industry as we work our way through the balance of this year, and then all the initiatives that we have ongoing internally to help address that.

So we hope to see a little bit of improvement on the freight front of it in the back half. So, I think overall, as David mentioned, our price net of commodities picture continues to look favorable sitting here today for both Q2 and through the balance of the year.

Brian P. Holland

Analyst, Consumer Edge Research LLC

Q

Perfect. Thank you. And then I guess if I could just follow up on the Bantam Bagels acquisition. So, maybe first question is you talked about some – Starbucks maybe being a key customer. I'm not sure if on a \$20 million revenue base that that's sort of full coverage of the Starbucks, at least in North America or the U.S. So I'm just curious if that's an opportunity sort of leveraging your distribution engine to expand that relationship.

And then, historically you have this really interesting portfolio of, as you've said, leading brands but sort of have a regional bent to them. And maybe historically they're under-penetrated, I think about Sister Schubert's maybe most notably. I know that there are others in there. Thinking about this being of bagels, and obviously it seems like it makes sense within the context of your deli isle exposure, breakfast, et cetera, as you've said. And I certainly appreciate you've got to walk before you can run, but can you give us a sense about how broad you think distribution on this product can be if you think about your Retail coverage?

David A. Ciesinski

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

A

I think the Oleksaks have built sort of a foundation for this to be a national brand and they're already on their way. If you go back to the roots of the business, in 2014 it was one of Oprah's favorite items. She has her annual list and it was one of those items. On the heels of that, they appeared on Shark Tank and they were funded by Lori Greiner, which helped develop national exposure. They were able to parlay that into distribution at Starbucks which, again, has developed a bit of a national following for them. And then finally, they've been able to leverage that as a means by which to get distribution in Target. So, they have the Egg Bites that are exclusively today in Target which are doing very well, and Kroger, and a range of others.

So the way I would look at this, Brian, is I think the Oleksaks have done with their team a tremendous job of building the brand and a platform and sequentially sort of laying out lily pads that they jump one to the next to the next that will give this thing the ability to extend nationally.

Douglas A. Fell

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

A

And, Brian...

Brian P. Holland

Analyst, Consumer Edge Research LLC

Q

Great. Thanks. [ph] Interesting stories. (33:22) Oh, sorry.

Douglas A. Fell

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

A

Oh, no. I was just going to add today they are in the majority of the Starbucks nationwide.

Brian P. Holland

Analyst, Consumer Edge Research LLC

Okay. Got it. Thank you very much. Best of luck.

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David A. Ciesinski

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

Most welcome.

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Operator: There are no further questions at this time. We will now turn the call back over to Mr. Ciesinski for his concluding comments.

David A. Ciesinski

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

Well, thank you, all, for joining us today. We look forward to talking with you later this winter as we share our second quarter results. Have a great day.

Operator: This concludes today's conference call. You may now disconnect.

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