

04-May-2023

Lancaster Colony Corp. (LANC)

Q3 2023 Earnings Call

CORPORATE PARTICIPANTS

Dale N. Ganobsik

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

David Alan Ciesinski

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

Thomas K. Pigott

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

OTHER PARTICIPANTS

Todd M. Brooks

Analyst, The Benchmark Co. LLC

Andrew Wolf

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

Connor Rattigan

Analyst, Consumer Edge Research LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Carmen and I'll be your conference call facilitator today. At this time, I would like to welcome everyone to the Lancaster Colony Corporation Fiscal Year 2023 Third 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 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 Corporate Finance and Investor Relations for Lancaster Colony Corporation.

Dale N. Ganobsik

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

Good morning, everyone, and thank you for joining us today for Lancaster Colony's fiscal year 2023 third 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 the 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 third quarter results for fiscal year 2023.

In our fiscal third quarter, which ended March 31st, we were pleased to report both record sales and higher profits. Consolidated net sales increased 15.2% to \$465 million, while consolidated gross profit improved 37.9% to \$94.2 million. Operating income reached \$29.4 million compared to an operating loss of \$7.6 million last year. Prior-year operating income included a restructuring and impairment charge of \$22.7 million.

The Retail segment reported Q3 net sales of \$247 million, up 16%, driven by the favorable impact of pricing actions to offset inflation and strong volume growth of 6%. The volume growth measured in pounds shipped was driven by the continued success of our licensing program and double-digit growth for our New York Bakery frozen garlic bread products.

In licensing, Buffalo Wild Wings sauces, Arby's sauces, Chick-fil-A sauces and Olive Garden dressings all contributed to volume growth. IRI data for our fiscal third quarter showed sales gains from our key retail brands and notable share gains for our category leading New York Bakery and Sister Schubert's brands. New York Bakery's leading share of the frozen garlic bread category grew 350 basis points to 43.5%, and Sister Schubert's leading share of the frozen dinner roll category increased 150 basis points to 53.1%.

In our Foodservice segment, net sales grew over 14% to \$218 million, driven by pricing actions, volume gains for several national account customers and higher demand for our branded Foodservice products. In total, Foodservice segment volume increased less than 1%. Excluding the sales of some less profitable product lines that were discontinued during the past year, Foodservice volume was up over 4%.

During Q3, we continued to experience high levels of inflation for raw materials and packaging. That said, through the benefit of our pricing actions, PNOC, or pricing net of commodities, was favorable versus the prior year. This is a continuation of the trend that began in Q1 of this year in which we were recovering some of the negative PNOC we experienced last year. We also benefited from another quarter of sequential improvement in cost savings attributed to productivity gains. In the quarters ahead, we will maintain our focus on supply chain productivity, value engineering and revenue management to improve our financial performance.

Before I turn it over to Tom, I'd like to extend my sincere thanks to the entire Lancaster Colony team for their ongoing commitment and contributions to our improved operational and financial performance. I'll now turn the call over to Tom Pigott, our CFO, for his commentary on our third quarter results. Tom?

Thomas K. Pigott

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

Thanks, Dave. Overall, the results for the quarter reflected continued top and bottom line growth driven by pricing actions that offset inflationary costs, improved supply chain performance and strong volume growth versus the prior-year quarter. Third quarter net sales increased by 15.2% to \$464.9 million. This growth was driven by pricing and volume. Decomposing the 15.2% increase in revenue, 11.3 percentage points were driven by [ph] pricing (00:06:03), with the remaining 3.9 percentage points driven by volume and a more favorable sales mix.

Consolidated gross profit increased by \$25.9 million or 37.9% to \$94.2 million. The increase in gross profit reflected favorable PNOC, improved supply chain performance and higher volume. If you recall in Q3 of fiscal

2022, we had negative PNOC as we lagged the rapid run-up in costs. We continue to recover those losses. While our commodity inflation was approximately 20% this quarter, our pricing actions offset this increase and the prior-year shortfall. As it relates to the improved supply chain performance, in the prior-year quarter, we experienced a high level of supply chain disruption, resulting in higher costs. This quarter, execution improved and the company generated cost savings that contributed to the improved gross profit performance. Finally, both segments reported volume growth despite the impact of the product discontinuations.

Selling, general and administrative expenses increased 18.9% or \$10.3 million. The increase reflects higher incentive compensation, investments to support the growth of the business and charges resulting from the settlement of lawsuits. The investment to support the growth of the business included higher consumer spending and increased brokerage costs.

Consumer spending is increasing in the second half to drive volume growth as our product supply position has improved. Expenditures for Project Ascent, our ERP initiative, were down as the project progressed into its later stages. Costs related to the project totaled \$7.6 million in the current year quarter versus \$10.3 million in the prior-year quarter. Consolidated operating income increased \$37 million to \$29.4 million. In the prior-year quarter, we recorded noncash restructuring impairment charges and a benefit for changes in contingent consideration. Together, they netted to a \$21.4 million expense. Excluding these items, operating income increased due to strong gross profit growth of the business, partially offset by the higher G&A costs.

Our tax rate for the quarter was 18.2% versus 40.2% in the prior-year quarter. We estimate our tax rate for the fourth quarter to be 23%. Third quarter diluted earnings per share increased \$1.06 to \$0.89. The increase was primarily driven by the two noncash charges in the prior year that I mentioned, which totaled \$0.59, and the improvement in the underlying performance of the business. The reduction in Project Ascent expenses contributed \$0.08 to the EPS growth versus the prior-year quarter.

With regard to capital expenditures, payments for property additions in the third quarter totaled \$22.4 million. For fiscal year 2023, we are forecasting total capital expenditures of approximately \$100 million. This forecast includes approximately \$55 million 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 \$0.85 per share paid on March 31st represented a 6% increase from the prior year's amount. Our enduring streak of annual dividend increases stands at 60 years. Our financial position remains strong as we are debt free with \$82.9 million of cash on the balance sheet. So to wrap up my commentary, our third quarter results reflected improved performance in several areas, resulting in very strong profit growth.

I'll 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 cost and grow our margins; and three, to expand our core with focused M&A and strategic licensing. In our fiscal fourth quarter, we anticipate retail sales to benefit from our licensing program, incremental growth from new products, flavors and sizes that we introduced this fiscal year. And in Foodservice, we expect continued volume growth from several of our national chain restaurant customers.

It's worth noting that our consolidated net sales will compare to last year's fourth quarter that benefited from an estimated \$25 million in incremental net sales attributed to the advanced customer orders ahead of our July 1st ERP go-live date for Wave 1. Cost inflation will remain a headwind to our financial results, but we expect our pricing actions and cost savings initiatives to offset the increased cost.

Finally, I'd like to provide you with an update on the implementation phase of our ERP initiative, Project Ascent. As we shared previously, this past July, we successfully completed Wave 1 of the implementation. And in October, we completed Wave 2. During our fiscal third quarter, we successfully completed Wave 3 of the implementation, adding our largest dressing and sauce production facility in Horse Cave, Kentucky to the new system. The implementation went as planned, but as expected, we did incur some incremental cost as production and service were unfavorably impacted by the ERP system cutover process. I'm happy to report that the team has successfully addressed those issues. We expect to complete the final waves of Project Ascent in the coming months, with the implementation phase scheduled to conclude during our fiscal first quarter. I'd like to extend my sincere thanks to all of my teammates for their ongoing efforts on this important strategic initiative.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] One moment for our first question, please. And it comes from the line of Todd Brooks with The Benchmark Company. Please go ahead.

Todd M. Brooks

Analyst, The Benchmark Co. LLC

Hey. Thanks. Good morning, everybody.

Q

Thomas K. Pigott

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

Good morning.

A

David Alan Ciesinski

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

Good Morning.

A

Todd M. Brooks

Analyst, The Benchmark Co. LLC

Couple questions for you, if I may. One, can we dive in the SG&A spend a little bit? I'd love to get some color going forward, maybe what the legal charges that were in that total. And then talk about maybe the higher level of customer spending that was expected in the back half of the year. If that was either outsized versus maybe prior expectations or if we just were too conservative in our modeling of G&A.

Q

Thomas K. Pigott

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

Okay. Hi, Todd. So I'll take you through that. So as we – in the quarter, the incentive compensation increase year-over-year was \$4 million. And really, what we had is a case where last year, on the financial performance of the

A

business, was below the overall company's expectations, and this year, it's exceeding so. So that \$4 million is more of a transitory item that is kind of a catch-up for the first half of the year as well as the third quarter.

The legal settlements were related to closed businesses and that was \$2 million. So that \$6 million is more transitory in nature. Then when you get into the next bucket, we're really talking about the things that are invest to grow. The consumer spending was up \$1 million and the brokerage was up a couple million dollars. And then the last driver I'll touch on is really the SAP costs in the core business and that's the amortization and the licensing costs from going live on the new software. So those are the key items I want to hit on.

In terms of the outlook for Q4, we're going to continue to invest to grow to support the business. So we do expect the consumer spend to be sequentially higher than last year as their supply position has improved and we continue to want to drive volume growth and we'll continue to spend on Ascent. Some of those transitory costs, particularly the legal and some of the bonus won't be repeating. So sequentially, we do expect the overall spend to decline in the fourth quarter.

Todd M. Brooks

Analyst, The Benchmark Co. LLC

Q

Perfect. That's really helpful. Thanks, Tom. And then my final question, I'll jump back in queue, and this is just trying to level set everybody. So, Dave, you teased out the \$25 million that we're up against in this quarter, that was a pull-forward, but you also talked in the release about some potential pull-forward into the March quarter from just Easter timing and the Easter shift. Is there an impact that we should think about as we're thinking about the Retail segment based on that timing, maybe what type of revenue do you estimate was pulled forward into the March quarter [indiscernible] (00:15:52)?

David Alan Ciesinski

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

A

Yeah. So maybe – first, Todd, I'll start just talking about Q3, and then maybe we'll talk about the outlook for Q4. For Q3, Easter was a contributor, but it was really a more modest contributor. The bigger driver in the swing on volume was shipments behind new items that we're launching. So in particular, sort of a range of those sauce items that have gone out, the larger size of Chick-fil-A, for example, and some of the others. And the other driver on volume has been just the strength of the Buffalo Wild Wings proposition, as we've been able to bring online incremental capacity, as we've had some of the viral marketing that's taken place, we've seen that business continue to run.

As we look forward in Q4, I think it's important for you and for the others to continue to track. We did have that \$25 million pull-forward last year. \$10 million of that was in Retail, \$15 million of that was in Foodservice. Importantly, as we think about what the volume outlook might be like for the consolidated business, we continue to see a pathway to modest overall volume growth for the business in Q4. If you then screw in a little bit tighter and you look at the Retail business, we see line of sight there probably to possibly on an organic basis as much as mid to mid-single-digit volume growth on that business. So we continue to feel good about it.

Todd M. Brooks

Analyst, The Benchmark Co. LLC

Q

That's really helpful. Thanks, Dave. I'll jump back in queue.

Operator: Thank you. One moment for our next question, please. And it comes from the line of Andrew Wolf with C.L. King. Please proceed.

Andrew Wolf

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

Hi. Thanks and also good morning.

Q

David Alan Ciesinski

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

Good morning.

A

Thomas K. Pigott

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

Good morning, Andrew.

A

Andrew Wolf

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

[ph] If I may (00:17:50) ask on kind of the state of trade relations, kind of an over – open-ended question a bit. Just the retailers, most supermarket chains or certainly the sectors having negative volumes. It's not horrible elasticities, but it seems like all this pricing has caught up to the trade a bit. Some brands are losing share to private label. Some of yours were, now they're not. What is the state of play overall with price increases into saying, hey, we need another round of increases to retailer X, Y and Z?

Q

And second, what is the state of play with them asking for ramped-up promotions? I see you talked about your customer side, which goes through G&A, but more than that sales one which goes into the retail trade, are they asking for more of that as well?

David Alan Ciesinski

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

Sure. So, Andrew, maybe I'll start by talking about – I'll start with retail about those conversations at the highest level and I would characterize them as continuing to be very constructive. The last thing we want to do is go in and talk just about pricing to our customers. And the unfortunate reality is, in the last couple of years, because of the rate of inflation we've had, we've had a lot of conversations about pricing. We've been able to counter those conversations by always being able to talk about new item launches and other things that we're doing with them to drive outsized growth.

A

So as I think about the disposition of our relationship with our retailers, I would put them in a very constructive category because we're in there talking about not just pricing, but a lot about volumetric growth and category growth ideas. I don't know if that's necessarily the case for all of our peers, but I can tell you that's sort of where we stand today.

As far as pricing is concerned, we have had some tough conversations and we continued to price through the first half of the year. We haven't taken any pricing since the last time that we've talked. Our Retail business remains PNOC-positive. And to the degree which we need to go back into the marketplace and have conversations around pricing, we fully expect those conversations to be a whole lot more tough than they were in, let's say, the last 18 months.

So now, your other question is what can we expect to see on the trade front, and what I would tell you is, to-date, we have not been getting lots of pressure to increase our trade rate on our items. Where I would expect those conversations are probably the most intense are in commodity categories that have seen a more aggressive fall

or in areas where private label is more developed and the retailer feels like they have more leverage to try to bring that money back into the category. That really – knock on wood here, it is not our current circumstances and, again, retailers always want to talk about, first and foremost, what we can do with them to drive category growth and the growth of their baskets, and that's the lever that we're really working to drive the hardest.

And maybe I'll even talk about the below the line marketing spend because areas where we're spending tends to be more focused in partnering with our retailers to drive the growth of basket spending than it is necessarily in some of the let's just call it equity advertising areas. So, I would say end-to-end, we're working with them to figure out how we innovate to grow their business, how we market to grow their business so the relationships on the retail side continue to be very collaborative.

On the Foodservice side, I think we've shared with you over the years, Andrew, that we have a very open and transparent – apparent relationship with our Foodservice operators, particularly in national accounts around commodity spend. We work with them to take positions on these core commodities. So again, they know exactly what our situation is on commodities and we work with them. They tell us often times when they want to take a position, how far they want to go and everything else.

Andrew Wolf

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

Q

Thank you. Appreciate that. A quick follow-up just on the Foodservice side. You've been kind of rationalizing some either items or contracts that were low margin. And I think you said it was a flat or 4% volume impact. When does that cycle or slowing [indiscernible] (00:22:23)?

David Alan Ciesinski

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

A

We're really cycling through the end of that. You'll see a little bit of an impact in Q4 and then it will have essentially run its course. The Foodservice team, beyond rationalizing customers, has done a tremendous job of rationalizing SKUs and that's been a really important contributor to their ability to improve their margins overall. I mean, it's – I mean, we're talking strong double-digit decreases in items that are helping us simplify that business to create better operating leverage. They deserve a lot of credit in that space.

Andrew Wolf

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

Q

Great. Thank you.

Thomas K. Pigott

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

A

Thanks, Andrew.

David Alan Ciesinski

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

A

Thanks, Andrew.

Dale N. Ganobsik

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

A

Thank you.

Operator: Thank you. One moment for our next question, please. And it comes from the line of Connor Rattigan with Consumer Edge. Please proceed.

Connor Rattigan

Analyst, Consumer Edge Research LLC

Hey, guys. Good morning. Thanks for the question.

Q

Thomas K. Pigott

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

Hi, Connor.

A

David Alan Ciesinski

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

Hi, Connor.

A

Connor Rattigan

Analyst, Consumer Edge Research LLC

Yeah. So obviously, a really strong topline quarter – topline this quarter. Congrats, guys. And I was just wondering maybe could you help us sort of understand the drivers here a little bit better? So, obviously, the license portfolio was crucial, but I'm just wondering maybe how much of that 6% Retail volume growth was due to Arby's, just given that you're comping a prelaunch quarter? And also on the Foodservice side, is that increased demand that you guys called out just incremental placements or higher consumption at existing locations?

Q

David Alan Ciesinski

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

Sure. So the Arby's contribution was a little bit less than 20% to that. So it was a notable contributor and we continue to be excited about how that proposition is performing. We also saw Buffalo Wild Wings was a strong contributor to that. Chick-fil-A was a strong contributor to that as well. And our own brand, in this case, New York Texas Toast, was a strong contributor as well. The supply chain team has done a really nice job continuing to figure out how to wring out incremental capacity. And our selling and marketing organization has done a nice job of continuing to sell that. I think overall, that brand continues to be a really nice story where whether you're looking at the one year or even the two-year stack, you're looking at a business that's up between 20% and almost 25% on the sales line and we're also seeing it behind volume growth as I noted here.

A

Connor Rattigan

Analyst, Consumer Edge Research LLC

No, that's great. Really helpful, guys. And then also on the cost side as well. So I know you've been trending at around 20% inflation for a while. Unless I missed it, you guys have a 3Q inflation figure you can share? And also sort of around the commentary with respect to pricing and cost savings to cover inflation [indiscernible] (00:25:15) I guess, do you expect some year-over-year margin expansion despite the inflation in 4Q?

Q

Thomas K. Pigott

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

A

Yes. So the – thanks for the question. The Q3 inflationary impact was about 20% and it does begin to moderate a bit in Q4 when we look at the natural dilution from higher prices and higher commodities. We're looking at more of 150-basis point impact year-over-year. But then as you look at the offsets, we get a better contribution from the cost savings initiatives, value engineering we've talked about, improved sales mix and the discontinuations Dave mentioned, insourcing. All of that will help us mitigate that natural dilution we get in Q4. So, we're looking at kind of a consistent gross margin percentage versus the prior year in the fourth quarter.

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

A

And then beyond that, we haven't given specific guidance on the outlook, but I think what I would share with you is, as you might expect, it is moderating. We're seeing oil moderate, we're seeing some of the other categories moderate, like eggs, particularly more recently, but they're being offset by other categories that are continuing to run, particularly sweeteners. So we'll have more to share with you on that as we come out with our Q4 results.

Connor Rattigan*Analyst, Consumer Edge Research LLC*

Q

Okay, perfect. And I'll just going to squeeze one more quick one in here. So do you have any – yeah, in the fact data that we see, it really looks like Arby's is kind of following an additional rollout track similar to Chick-fil-A. So I guess just how happy are you guys to be able to rollout to-date? And is it just roughly in line with your expectations or maybe running slightly ahead?

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

A

I would say it's in line with our expectations. What we've learned with every one of these, Connor, is that it just takes time for our retail partners to get them cut into the shelf, to get the right number of facings on the shelf for consumers to become aware and for the items to turn, and that is very, very true with the Arby's proposition. And it's – I mean, across the longer arc of time, I think it's true with Buffalo Wild Wings. What you ordinarily see when you come out with a brand like this that, let's say, has awareness because of the restaurant, but doesn't necessarily have retail trial, is retailers initially cut it in wherever they can place it. So usually, it's going to be two facings, maybe four, the bottom or the top of the shelf, they really don't make a dramatic change to the planogram.

Then as that item starts to turn, what happens is you'll see it migrate from the bottom to the top of the shelf, a little bit closer to the bull's eye, and then they'll change the mix of items. You could go from two or four facing, sometimes to six, and they'll dial in the mix of those SKUs to make sure that they have the right amount. It was true with Olive Garden, true with Chick-fil-A, we're seeing it in Buffalo Wild Wings and that same thing seems to be playing out on Arby's. So it's very much running in line with what we thought. And we're just thrilled that Arby's was willing to partner with us on this proposition. Our team has done a great job of just loving on that business and executing it in retail.

Connor Rattigan*Analyst, Consumer Edge Research LLC*

Q

All right. Thanks for the color, guys. That was great. As always, appreciate it.

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

A

Of course. Thank you, Connor.

Dale N. Ganobsik

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

Thank you.

A

Operator: Thank you. [Operator Instructions] We have a question. One moment, please. We have a follow-up from the line of Andrew Wolf from C.L. King. Please proceed.

Andrew Wolf

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

Hi. Thank you. Bit of a strategic question, but it's with the third wave of the ERP...

Q

David Alan Ciesinski

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

Yeah.

A

Andrew Wolf

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

...implementation now behind you, you've seen – you've handled different phases from beginning phase to getting things up and running and all that, working with a lot of consultants to doing it yourself. It seems you've addressed, from the outside at least, kind of all the contingencies and all the processes one would go through. And I want to link this to potential M&A since getting a good ERP system is into a decent sized target would be a big part of realizing synergies of various kinds. Where are you at with the ERP implementation as you guys think about it, such that you would have enough confidence to say we can take this target and do all we need to do with integration based on how the ERP implementation has gone?

Q

David Alan Ciesinski

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

Sure. As we pointed out, Andrew, in our script, we've gone through Wave 1, Wave 2, Wave 3, so we've taken the financial backbone and the GL, all of that's on our new system. And then sequentially, we've been rolling in plants and warehouses, with our flagship factory in Horse Cave being really what comprise the better part of Wave 3. Now, we still have Wave 4 that's out there that we're going to be driving in this current quarter. And really, what that's going to be consisting of is bring in the last of our dressing factories online and two of our dressing warehouses. So none of this is going to be new [ph] arc (00:31:20) that we're taking on in Wave 4. It's just you want to make sure that you have enough people in place to perform hypercare as you're fundamentally changing the way people are working so you can service the business.

A

So, we fully expect between now and when we're together with you in August, talking about our Q4, we will have wrapped up our Wave 4. And really, our [ph] Release 1 (00:31:44), as we call it, will be complete. What we expect to do at that point in time is really to focus around a period that we're calling stabilization, utilization and training, where after really fundamentally changing the way people work in our factories and our warehouses, just bedding down the system, cleaning up the remnants of broken glass that may still exist and focusing on helping our people in those plants get far more efficient and effective in how they're doing this work.

Now, all of that also creates a window for us to talk about M&A, and that's an item that we're very, very excited about. If you go back really to where we started the journey, this strategic journey you're talking about, we really started out as more of a confederation of companies that had been acquired rather than an integrated company.

SAP has enabled us to do that. So from an optionality perspective, it's going to give us the ability to look at small businesses and integrate them into our network very tightly that should glean greater efficiencies, but it also gives us the ability to look at bigger scale acquisitions and do precisely that. It also allows us to follow some of our Foodservice customers or others that want to grow internationally and do that far more effectively than we could have done it on our old platform.

So from a timing perspective between – like I said, between now and when we're together in August talking about our Q4, we expect that period, [ph] Release 4 (00:33:10) or Wave 4 to be behind us. We're going to be entering into the stabilization period and, at that point, really, it allows us to think about what we've described as all along Lancaster Colony 3.0, where these strategic acquisitions do come into our consideration set. And it's a period we're super excited about.

Really, if you look the last three years, we went through an intense period of externally imposed change because of COVID and supply chain disruptions. Towards the tail end of that, we've gone through a self-imposed period of internal change because of this SAP transformation. I mean, the only thing I could figure that would be more complicated would be to move the business to Mars, because I got to tell you, and I'm talking colonizing Mars because they're – for anybody that's lived through an ERP project, for the project team, for the business operators, I mean, even you can say a forklift operator, somebody working in our kitchens, they're forced to go back and relearn the way they do the work.

So this external and internally imposed change is winding down. And what excites us is we're just going to focus on getting better and that's going to allow for us then to figure out how we leverage the strength of the team and our balance sheet, which both are strong. And I feel like we – it's a chance for us to think about really another chapter in our book where we can go and grow and create opportunities for people and our customers. So it's certainly an exciting period that we're looking forward to move towards.

Andrew Wolf

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

Q

Thank you. And a follow-up on the training and utilization part that you'll be entering in fiscal 2024. Just a sense of -my experience or my understanding of ERP is, and after all what you just described, the process, all the training and utilization, it's kind of cumulative. It's sort of crawl, walk, run and then...

David Alan Ciesinski

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

A

Yes.

Andrew Wolf

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

Q

...potentially exponential benefits if it really goes well. Do you feel you need to have some legs behind that before you would get a target acquired? Because, all right, you feel good about implementation, but do you also want to feel good about getting the payoff that you expected or do you feel...

David Alan Ciesinski

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

A

Yeah.

Andrew Wolf

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

Q

...you can implement and learn the payoff simultaneously and just bring in a new business as well?

David Alan Ciesinski

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

A

I guess the way I would – the way we're thinking about it here in Columbus, Andrew, is really a reflection of the total weight on the branch, right? How much weight do we have on the branch for the organization? And the last, let's call it, the middle chunk, well, really the better part of this whole year has had a lot of weight on the branch. We've had the ERP implementation, but the other thing we've done is we've doubled the size in square footage of our flagship factory and that in and of itself brings with it a fair amount of complexity.

So, we're seeing the weight of the branch from the expansion start to diminish. The weight of the branch from ERP will diminish. So I wouldn't go so far as to say we feel like we have to have the system perfected before we could entertain an acquisition. But I think we'd have to be able to look at the business and look at all the other things that we have going on and feel like there's a sufficient amount of weight available for the branch for us to take on an acquisition and make sure that we can service our strategic customers, retail and foodservice operators seamlessly.

Andrew Wolf

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

Q

Thank you.

Operator: Thank you.

Thomas K. Pigott

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

A

Thank you.

Operator: [Operator Instructions] I'm not showing any further questions. I will turn the call back to Mr. Ciesinski for his concluding comments.

David Alan Ciesinski

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

Thank you, operator, and thank you, everyone, for your participation this morning. We look forward to sharing with you our fourth quarter results when we're back together in August. Have a great day.

Operator: Thank you again for participating and you may now disconnect.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2023 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.