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Earnings Call

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Call Participants

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Presentation

Operator

Good morning. My name is Tanya, 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 Fourth Quarter Conference Call. Conducting today's call will be Dave Ciesinski, President and CEO; and Tom Pigott, CFO.

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

Dale N. Ganobsik

Vice President of Corporate Finance, Investor Relations & Treasurer

Good morning, everyone, and thank you for joining us today for Lancaster Colony's Fiscal Year 2023 Fourth 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, lanastercolony.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 for fiscal 2024. 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 A. Ciesinski

President, CEO & Director

Thanks, Dale, and good morning, everyone.

It's a pleasure to be here with you today as we review our fourth quarter results for fiscal year 2023. In our fiscal fourth quarter, which ended June 30, consolidated net sales increased 50 basis points to a fourth quarter record \$455 million, while gross profit declined \$5.2 million to \$93.2 million. As a reminder, last year's fourth quarter included an estimated \$25 million in incremental net sales or 6% of the total, which were attributed to advanced orders ahead of our ERP go-live on July 1, 2022. These incremental sales added about \$5 million to last year's Q4 gross profit.

In our retail segment, net sales increased 1.3%, driven by the favorable impact of pricing actions to offset inflation and continued growth from our licensing program. Excluding the prior year advanced ordering ahead of our ERP go-live, retail sales volumes measured in pounds shipped increased 1.7%. Given these period-on-period shifts, it's informative to look at retailer scanner data as a barometer of our retail business.

During the quarter ending June 30, retailer consumption for our branded products measured in pounds was up 4.7%, led by growth in our licensing program. Circana data, formerly IRI, showed notable share gains in the quarter for our category-leading New York Bakery and Sister Schubert brands. New York Bakery's leading share of the frozen garlic bread category grew 180 basis points to 42.3%, and Sister Schubert's leading share of the frozen dinner roll category increased 200 basis points to 56.1%. Our licensed products also continued to perform very well during the quarter as Chick-fil-A sauces were up 28% to \$43.7 million, Olive Garden dressings were up 15.8% to \$42.6 million, and Buffalo Wild Wings sauces were up 43.1% to \$20.7 million.

I'm also happy to report that Chick-fil-A sauces were recently recognized by Circana as a new product paysetter. In calendar year 2022, Chick-fil-A sauces were the fastest-growing retail food item in the food and mass channels, generating more than \$140 million in retail sales.

In the Foodservice segment, net sales were essentially flat at \$218 million and compared with a significant increase of 28% in last year's fourth quarter. In addition to the impact of last year's advanced ordering, which comprised about 8%, Foodservice sales also reflect a modest slowdown in traffic for some of our national chain customers. During Q4, we continued to experience high levels of inflation for raw materials and packaging. Although we did note a considerable decline in the rate of inflation compared to the first 3 quarters of fiscal year 2023.

Through the benefit of our pricing actions, our Q4 PNOC, or Pricing Net Of Commodities was favorable versus the prior year. This is a continuation of the trend that began in Q1 of fiscal year 2023, whereby we are recovering some of the prior year's negative PNOC.

Q4 gross profit fell short of our expectations as we incurred some temporary costs associated with our long-term strategic investments in production capacity and our ERP network. These issues have since been resolved, and we look forward to the many benefits these investments will provide our business in the years ahead. Our focus on supply chain productivity, value engineering and revenue management will also remain core elements to improve our financial performance during fiscal year 2024 and beyond.

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

Thomas K. Pigott

VP, Assistant Secretary & CFO

Thanks, Dave. The results for the quarter reflected continued top line growth and favorable pricing net of commodities performance versus the prior year quarter. These positive contributions were offset by 3 items: comping to the prior year quarter's customer pull forward of shipments in advance of our SAP go-live, short-term challenges we experienced in our gross profit performance that Dave mentioned and a noncash impairment charge we recorded in our flat-out business.

Fourth quarter consolidated net sales increased by 50 basis points to \$454.7 million. Decomposing the revenue performance, revenue was unfavorably impacted by approximately 5.9 percentage points from the pull forward, while higher pricing contributed 6.4 percentage points of growth. Consolidated gross profit declined by \$5.2 million or 5.3% to \$93.2 million versus the prior year quarter.

The gross profit decline was driven by comping to the prior year's pull forward of customer orders, which we estimate to have been an approximate \$5 million headwind, start-up costs at our recently expanded Horse Cave dressings and sauce facility, interim inefficiencies at facilities we recently added to our SAP network and costs related to a discontinued product line. These unfavorable impacts were partially offset by favorable pricing net of commodity performance.

Our commodity inflation was approximately 9% this quarter, reflecting some moderation in the level of year-over-year inflation we experienced.

Selling, general and administrative expenses increased 4.7% or \$2.6 million. The increase reflects investments to support the growth of the business as well as higher IT and personnel costs. The investments to support the growth of the business included higher consumer spending and increased brokerage costs.

Consumer spending increased in the second half as our product supply position has improved. Expenditures for Project Ascent, our ERP initiative, were down, partially offsetting these increases. Costs related to the project totaled \$5.6 million in the current year quarter versus \$11 million in the prior year quarter.

During the quarter, we recorded a \$25 million noncash impairment charge to reduce the carrying value of our Flatout flatbread business and tangible assets. The impairment charge was reflected in our Retail segment. In the prior year quarter, restructuring and impairment charges totaled \$10.5

million. Consolidated operating income decreased \$22.2 million to \$11.5 million due to the impact of the impairment charge as well as the lower gross profit and higher SG&A costs I mentioned.

Our tax rate for the quarter was 26.4%, the tax rate was impacted by lower pretax income due to the impairment charge. We estimate our tax rate for fiscal '24 to be 23%. Fourth quarter diluted earnings per share decreased \$0.73 to \$0.33. The year-over-year impact of the restructuring and impairment charges was unfavorable by \$0.41 per share. The net impact of the reduction in project Ascent expenses was favorable at \$0.15.

With regard to capital expenditures, our full year payments for property additions totaled \$90.2 million. For fiscal '24, we are forecasting total capital expenditures of \$70 million to \$80 million. This forecast reflects a decline versus the prior 2-year spending with the Horse Cave expansion now substantially complete.

In addition to investing in our business, we also returned funds to shareholders. Our quarterly cash dividend of \$0.85 per share paid on June 30 represented a 6% increase from the prior year's amount. Our full year dividend payments were \$92.4 million and our enduring streak of annual dividend increases stands at 60 years. The company was able to fund the capital investments and dividend payments through its operating cash flow generating ability.

Operating cash flow totaled \$226 million on the year. Our financial position remains strong with a debt-free balance sheet and \$88.5 million in cash.

So to wrap up my commentary, our fourth quarter results reflect a continued investment in the company as well as some short-term challenges we incurred as we position the company for future growth. I'll now turn it back over to Dave for his closing remarks. Thank you.

David A. Ciesinski

President, CEO & Director

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 3 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 fiscal year 2024, we anticipate retail segment sales will continue to benefit from volume growth led by our licensing program, including incremental growth from new products, flavors and sizes we introduced in fiscal year 2023. We're also very excited to share our plans to add Texas Roadhouse steak sauces to our licensing program with a spring launch date.

Finally, we foresee continued positive momentum for our New York Bakery frozen garlic bread, which is a tasty complement to everyday meal occasions.

In Foodservice, we expect sales volumes to be led by growth from select QSR restaurant customers in our mix of national accounts. Suffice it to say, external factors, including U.S. economic performance and potential changes in consumer sentiment may impact Foodservice segment demand.

Finally, consolidated net sales will also continue to benefit from pricing actions taken in fiscal year 2023. We project the impact of inflationary cost to subside notably in the coming year. The pricing actions we have implemented, along with our cost savings initiatives will help to offset remaining inflationary cost. With respect to our ERP initiative, Project Ascent, we are pleased to announce that as planned, we completed the final wave of implementation and we'll devote our attention to leveraging the capabilities of the new system to strengthen our execution in fiscal year 2024.

Turning to our supply chain. We are very excited about the opportunities ahead under the leadership of Louis Viso, our new Chief Supply Chain Officer. Louis has built a long and successful career with nearly 40 years of experience in supply chain operations, innovation and R&D. His extensive experience in the food and beverage industry at Kraft Foods, Coca-Cola and Monster Beverage as well as his strong people-oriented leadership will benefit our organization tremendously as we continue to execute our growth strategy into fiscal year 2024 and beyond.

In closing, I'd like to thank the entire Lancaster Colony team for all their hard work and ongoing commitment to our business during fiscal year 2023. I look forward to working together with everyone in the coming year as we continue our journey to be the better food company. This concludes our prepared remarks for the day, and we would be happy to answer any questions you might have.

Question and Answer

Operator

[Operator Instructions]

Our first question is coming from Todd Brooks of The Benchmark Company.

Todd Morrison Brooks

The Benchmark Company, LLC, Research Division

Two quick questions, if I may, to start off. One, I think, Dave, at one point as we were thinking about Horse Cave and the incremental unlock that facility may have been for the licensed branded product. I think it has been sized in like the \$100 million range, but that was over a couple year period. Can we maybe either speak to what the incremental unlock was in fiscal '23, so we can start to bake in, thinking for what the incremental potential is from licensed branded products, the capacity and the product line expansions in '24. And then maybe if we can lay over the top of it, the thinking about Texas Roadhouse and just talk more broadly about your thoughts for growth in the licensed branded products in fiscal '24.

David A. Ciesinski

President, CEO & Director

Sure. So Todd, when we talked about what Horse Cave have afforded us, we framed it in the context of we thought somewhere in the range of 3 to 5 and even upwards of 7 years of growth for both retail and Foodservice with 5 years of growth being sort of the target that we thought that it would afford us.

So going back, so it would be definitely north of \$100 million of capacity to grow in retail behind bottles. We won't go into exact numbers of that. But we'd love to take you down there to show you the facility to give you an appreciation for the scale and capabilities. But as you think about it, based on what we see and the way it's running today, it's definitely going to give us 5 years of growth, maybe a little bit longer, maybe a little bit shorter, but it definitely gives us capacity on bottles to grow.

Now how do we think about this platform going forward? If you -- you've been following us long enough to remember we saw it as literally billions of dollars of addressable opportunities if you put in dipping sauces, marinades, barbecue sauces, things like ranch dressing and other categories, you could size it somewhere between probably \$6 billion and upwards of even \$10 billion of addressable opportunity. So -- and you see us sort of sequentially working our way through that.

First, in the pourable salad dressing category, which is north of several billion dollars in the center of the store, and we're adding to that, behind Olive Garden with our new addition in Caesar, which we couldn't be more excited about.

Then you move on to other areas, building on to the platform with new sauces behind Chick-fil-A, the barbecue and the sweet and spicy Sriracha, also in the period adding bigger sizes on Chick-fil-A, which we're thrilled to see how it's performing, and then finally, expanding behind Buffalo Wild Wings.

What Texas Roadhouse is going to give us is a solution for really the red meat occasion or if you look at the majority of our sauces right now, they tend to play around chicken and things like fish, but we really haven't had a red meat solution and what Texas Roadhouse is going to give us is, first of all, just an iconic restaurant brand that's been one of -- consistent and one of the fastest-growing restaurant brands out there that's kind of under the radar because of the way that they advertise and the ability to go after a couple of other entrenched competitors that are out there.

So we couldn't be more excited. Texas Roadhouse has been a great partner to work with and we think this platform has nice big shoulders.

Todd Morrison Brooks

The Benchmark Company, LLC, Research Division

Tom, my second question, and I'll jump back in queue. If we look at and it may be an assumption on my part that there's not a lot of future pricing actions coming over the next 12 months. Can you walk through what the pricing waterfall looks like for each segment as prior increases lap, just so we need to -- so we can get a sense of the dynamic between volume and pricing as we go across fiscal '24?

Thomas K. Pigott

VP, Assistant Secretary & CFO

Yes. Todd, great question. So your assumption is correct. As we look into fiscal '24, we really look at our top line primarily driven by volume. As you look at it by quarter, we do expect some pricing benefit to create in both businesses but modest and thereafter, we're really driving it by volume.

Operator

And our next question will be coming from Andrew Wolf of CL King.

Andrew Paul Wolf

CL King & Associates, Inc., Research Division

I wanted to ask about -- your update on your retail sales consumption was pretty positive at 4.7%.

David A. Ciesinski

President, CEO & Director

Yes.

Andrew Paul Wolf

CL King & Associates, Inc., Research Division

Obviously, there's a gap there between what you shipped at [1.7%] but the prior quarter, you shipped [6.1%]. So it kind of seems at the end of commentary you had last quarter, it sounds like -- you've put a lot of new products into the channel in the March quarter had really good sell-through, frankly, this quarter. So as we're kind of trying to model out volume into the next year, it would strike me, obviously, at some point, it equates to the retail sell-through. So is that sort of how we should think about it? Is that how you're thinking about it? How would you sort of help us to sort of think about your volume trends sort of looking forward in the next quarter or 2 and through the full year.

David A. Ciesinski

President, CEO & Director

Andrew, good morning, and second, you're exactly right. If you look at our consumption in pounds in the quarter, they were 4.7% they accelerated over the consumption in the prior period. And you're right, we overshipped consumption in the prior period as we were building the pipeline, so you're precisely right.

Now as we think about where this goes forward, what we're anticipating is volume growth to continue in the low-to-mid range based on what we're seeing throughout the year. That's the target that we're laying out. And you might expect that to see that even marginally stronger on the front end of that. And then as we begin to lap some of this stuff later on, you might see that soften. But across the arc of the period, we're expecting to see volumetric growth for retail in the low-to-mid range. And if you look at it versus our peers that are out there, we think it puts us in the best-in-class area.

What you can expect in terms of the drivers of that. As Tom pointed out, we don't have new pricing. We have some wraparound pricing that we're going to see in retail for the first half of the year and then no pricing plan thereafter. And this is really going to be an algorithm driven by volume through the year.

Andrew Paul Wolf

CL King & Associates, Inc., Research Division

Got it. And I did want to follow up. I understand you didn't want to give a dollar amount when Todd asked you about what Horse Cave means for kind of sales power and what have you. But can you give us a sense maybe in terms of capacity utilization? You built, put a lot of capital into the business and now sort

of the payoff phase, how much of -- where is the capacity at? It's always a nice time to own certain stocks when the capacity utilization is going up.

David A. Ciesinski

President, CEO & Director

Yes. So as you might imagine, we took up a building, a facility that was 225,000 square feet, essentially added on another 225,000 square feet. So we doubled the size of it and the plan there was to build a facility that would allow us to run for, like I shared with Todd on the front end, 5 years, call it, plus/minus. So the utilization overall in the factories is definitely north of 50%, approaching 60%. But bear in mind, when you build something that big, what you do is the boxes there. In some cases, you have the kitchens that are there, but you don't necessarily have line started up and stuff like that. So I don't know if I would necessarily say that's the right way to look at it, just because it's not like that capacity is available to run now just because we haven't staffed it with labor.

I think the more -- maybe the way we're looking at this thing is we have something that's laid out that's going to allow us to incrementally step up, adding more labor to the lines, more staffing, adding more shifts as we run through the period and allow us to grow for that 5 years and that's both retail and food service because as you think about it in Foodservice, Chick-fil-A remains our biggest customer when you guys get a chance to dig into the K, you're going to see that they represent north of 40% of the business today in Foodservice. And their business in terms of sales continues to grow in double digits. And if you look at them in terms of traffic, which I know you track up that space as well. They're continuing to grow in the high single digits in terms of traffic, the mid- to high.

Andrew Paul Wolf

CL King & Associates, Inc., Research Division

Okay. And just I guess my last question is just on the macro, which you alluded to, more in reference to Foodservice. And obviously, you just highlighted Chick-fil-A, which is a great relationship in many ways, but certainly commercially. It seems like the rest of the portfolio, therefore, was the drag on the business. We don't have to point to any one of them, but just as a group, and that's not surprising as you mentioned, given the traffic issues in restaurants. So would it be fair to -- for us on the outside to think the Foodservice side, as you look at the year, maybe a little more subdued compared to in the volume side compared to what you expect in retail, given the innovation pipeline that's in retail?

David A. Ciesinski

President, CEO & Director

No, I think you're exactly right. What we expect is first of all, the retail business to grow faster than the Foodservice business for the reasons that you described. I think if you look at now the macros take us out of the equation, look to macros, I think you're going to see Foodservice overall, this is quick service restaurant, full-service restaurants, everything across the board, probably to be somewhere between flat and down a couple of points in terms of traffic. I think you're going to see the pricing benefit that's been floating these concepts begin to subside.

So I think you're going to see their sales begin to trail off again to that same sort of a reason -- same sort of area. The folks that are going to grow are going to be doing it behind traffic. Now if you bring it in, that's the macro, and you look at our mix of business, I think what you're going to see is, given the size of Chick-fil-A as long as Chick-fil-A continues to grow, and as long as some of our other QSR partners continue to grow, we expect to be outperforming the rest of the broader Foodservice group by probably several hundred, 300 basis points.

So I think our business is probably in terms of volume closer to flat to maybe marginally up just based on the strength of Chick-fil-A, and that's where we are now. Things change with the consumer. We'll see what happens. If the outlook gets stronger, we may see that improve. If there's more pressure on the consumer, we could see that soften. But again, relative to the peer group, we feel like from a volume perspective in Foodservice, we're in a position to outperform.

The other thing that I would share just on Foodservice, maybe a couple of notables. We had the chance several weeks ago to invite the Chick-fil-A leadership team to our facility at Horse Cave, and they had a chance to see it end-to-end in full operations. And I think it was an important milestone for all of us. Parenthetically, when we were starting the project, Dan Cathy was the CEO, and he had a chance to walk through the plans with us.

And now Andrew Cathy's assumed the role as the CEO, he had a chance to see it up and running. That continues to be a very important partnership, obviously. And we look forward to hosting other partners there in the weeks ahead. We have other similar sort of visits that are planned.

Maybe the one thing that you guys haven't asked yet, and I want to get into in terms of how we think about Horse Cave is if you look at that plant, it continues to be our most cost advantaged plant to continue to operate and what we haven't set outside of our commentary is we had a rough quarter, particularly at Horse Cave behind that startup and behind SAP. And both of those conversions happen pretty closely to each other, which drove cost issues that were enumerated during the course of the call. We don't expect those to continue as we press forward.

So as you're thinking about the cost structure, one of the things that I wanted to sort of steer you from is that those cost issues that we ran into associated with the SAP cutover and operating at full speed as well as the startup and those 2 things interacting together, we expect to be one-timers that's stung us in that quarter.

Andrew Paul Wolf

CL King & Associates, Inc., Research Division

Okay. I didn't want to hog the call, but I want to ask a follow-up since you brought it up. When you talk about cost advantage, I assume it's greater at Horse Cave for Foodservice, given the single item pack, and if you automate that at a greater scale. Just a relative sense is that where you get margin-wise, is that where the margin improvement is on a relative basis greater than versus retail, where even an older production facility can still scale up pretty -- there's just more relative scale even on an older facility at retail. Would I be thinking about it right is -- in other words, the Horse Cave is going to give more relative margin improvement to the Foodservice side than retail.

David A. Ciesinski

President, CEO & Director

It's going to provide margin improvement on both facilities because if you look at it, take retail, for example, most of the bottle lines that we have in our other facilities are a little bit older, this facility operates at bottle speeds that are, in some cases, 2x or a little better than what we're running at other places. And it's more automated end-to-end in terms of reliance on labor. So in retail, it's going to give us an advantage because of the speed and the scale and the automation and the same thing is going to be true in Foodservice.

Operator

Our next question is coming from Alton Stump of Loop Capital.

Alton Kemp Stump

Loop Capital Markets LLC, Research Division

Great. Just wanted to ask you about the Texas Roadhouse deal, obviously, is coming out in the spring. So you probably can't share too much. But I guess how much of a role did the new capacity that you now have aligned with Horse Cave play in your ability to take on new partners such as Texas Roadhouse.

David A. Ciesinski

President, CEO & Director

Well, it's a great question. It's certainly a consideration. What I would tell you is that it didn't really factor into the discussions that we had with them. This is another one where as we've developed a reputation in the industry or for a competency around licensing, it's just developed into conversations. And this is

one that came to us inbound. It was actually recommended the way it went was Texas Roadhouse talked to a customer expressing an interest in an idea and that customer referred them to us, and that sort of germinated into a conversation that went into -- that went on for a while as we explored how we thought we could go about this. So the capacity availability was a consideration, but not a very big one in this case. For us, it just allows us to do it far more profitably than it would have been otherwise.

Alton Kemp Stump

Loop Capital Markets LLC, Research Division

And then just as a follow-up to the end, you mentioned the word inbound, which I'm certainly not surprised everybody in Russian industry as, which you well know is watching what Chick-fil-A is doing, and I'm sure they've all taken note of the huge growth that they've seen with you guys with the licensed business. I mean, how much of an impact has that had on the number of inbound interest calls you're getting from other major operators in the QSR and/or casual sectors?

David A. Ciesinski

President, CEO & Director

Well, I think a fair amount. And Alton, I would ladder back to Olive Garden where we started this. If you looked at it in the period, their retail sales in the quarter, so scanner sales were \$42 million. And I think they were the original one that people started to look at. And it's a reflection of several things going on.

The blurring of lines between retail and Foodservice and food that's being consumed off-prem, right? And all of a sudden, these restaurant operators, I think, were less fixed on restaurant versus out of the restaurant and then just the size of the opportunity and how these brands play in retail, particularly after COVID, I think, presented an opportunity to diversify their revenue stream and connect with their consumers in different ways. So I think Olive Garden was the first of those. But Chick-fil-A was sort of the one that not only did it grow to the size, but as we talked about in the script, it was one of IRI's pay setters, which means one of their top 10 fastest-growing items in all the food and beverage during the calendar year 2022 and is the fastest-growing food item in 2022.

So I think that starts to get other restaurants' attention. So as we're looking at this, we continue to see this platform behind licensing and principally restaurant licensing as an opportunity where we can take this great capability that we have around innovation of sauces, dressings, condiments, flavor systems and take those to the marketplace. And we're not necessarily encumbered by just having a brand. It allows us to leverage a brand with strong awareness that already exists that's out there, put that great sauce behind the brand and then deliver it to consumers, and it allows us to overcome the barrier of awareness and trial and repeat more rapidly and get returns instead of betting on the come on marketing spending.

Operator

Our next question will be coming from Connor Rattigan of Consumer Edge.

Connor Rattigan

Consumer Edge Research, LLC

And I guess it's worth mentioning, given the news I'm taking this call from a Texas Roadhouse parking lot, so definitely very timely. So I guess I just want to make sure. I'm not sure if I might have missed it, but just circling back to the top line, so obviously, results came in quite a bit below, I guess, our and consensus expectations. I guess can you sort of just kind of maybe walk us through sort of how we got here and maybe what the drag was. And I guess, how did results come in versus your internal expectations? I know you had the \$25 million ERP pull-forward headwind. But I guess what exactly was the real top line headwind in the quarter?

David A. Ciesinski

President, CEO & Director

Sure. I think we're all aware of the pull forward that we had in the prior period that made planning a little bit more challenging. The second biggest item beyond that, and this is targeted at retail, would have been

that pipeline build that we had in Q3 that really elevated Q3 that we saw scan through in Q4, right? So I think that would have been the other one.

And then I think as we looked at what played out as the quarter went on, we do believe there was a bit of an Easter effect that was in Q3. Now it only shifted about a week this year, but it seemed to have been enough to create a little bit different order pattern between Q3 and Q4 on both our dressings and also on Sister Schubert. So I think those really were the items that created the gap between what you guys were calling for and what we were calling for.

I think it's also part of the reason why that as we want to think about what the outlook is, right? Some of this period-on-period noise because of SAP finally is going to be behind us. We implemented our last wave, so we're done. It's really focusing now on consumption and then shipping to consumption.

Connor Rattigan

Consumer Edge Research, LLC

Got it. Okay. That makes total sense. And then also, two, just on Foodservice as well, right? So I guess you guys noted a bit of a slowdown in Foodservice traffic, but it sounds like Chick-fil-A traffic is doing quite well. So I guess, I mean, the general slowdown in traffic kind of somewhat runs in contrast, what we've heard from peers. I mean, I guess, was this maybe more of a recent phenomenon? Or was it a pretty steady slowdown throughout the quarter? And I mean, I guess, maybe could you comment sort of was this more indexed to certain QSRs or maybe other channels?

David A. Ciesinski

President, CEO & Director

Yes, it's a great question, and it's interesting. If you look at the 52-week traffic, the 12-week traffic and the 4-week, so for June, June was a slowdown for several of our customers that were in there. Chick-fil-A, it was not. Chick-fil-A was kind of flat through the period, but we had other customers that seen from a traffic perspective to slow down a little bit in June.

Now ironically, we're looking at weekly data thereafter and into July, they seem to be doing a little bit better thereafter. So we think that also contributed to the gap between Foodservice.

Connor Rattigan

Consumer Edge Research, LLC

Got it. Okay. That was helpful. And then I guess just 1 more as well, right? So on the cost front, it sounds like you guys are seeing quite a bit of relief. I guess from -- what we've heard from other folks, too, is soybean oil and whatnot still tends to remain quite high. I mean, I guess, is your optimism on the cost environment just centered around maybe egg prices coming down? And also, as we sort of think about that as it relates to gross margins in 2024, with the carryover pricing you guys have and productivity in the mix as well, I mean, I guess, would it be fair to assume the expectation is returned to historical gross margin levels?

David A. Ciesinski

President, CEO & Director

Well, maybe I'll kind of walk through those -- that range of questions and start first with just an inflation outlook, and then I'll turn it over to Tom, and he'll take you through more depth. Part of our frame of reference here is the last 2 years, fiscal year '22 and '23, we saw 20% inflation. So on a relative basis, we're looking at a year, this year, where we're seeing inflation on a gross basis in the low single digits. Really eggs being most certainly a contributor to that, and then we're seeing an easing on some of our other commodity classes as well. So certainly not deflationary, but we're not expecting it to be nearly in the range of which it was. So I think that whole piece is really all about being relative. Maybe with that, Tom, I'll turn it over to you if you have want to help with some of the commodity cost.

Thomas K. Pigott

VP, Assistant Secretary & CFO

Yes. So great question, Connor. So as we look at our commodity basket for next year, we still are slightly inflationary. I think our comments are more that the level of inflation has started to go down. Sweeteners, obviously, a key item for us. It's up considerably year-over-year. That's mitigating or offsetting some of the favorability we're seeing elsewhere.

As you look at the broader margin profile as we enter fiscal year '24. From a PNOC standpoint, given that we're still looking at some level of inflation, we're not assuming that we're going to be -- get back some of that margin that you alluded to, we really need to get into more of a deflationary environment to assume that?

And then the second thing is, obviously, this consumer environment is something we're monitoring closely. And like other companies, we're concerned about the need to spend back and to reinvest in our retail business to continue to drive the outsized volume growth that we do. But last, I would end with, we feel -- in terms of a tailwind, we feel like we do have a robust productivity plan put into place for next year that will help us to offset some of these potential headwinds.

Operator

And our next question will be coming from Todd Brooks of The Benchmark Company.

Todd Morrison Brooks

The Benchmark Company, LLC, Research Division

Thanks for taking my followup. Boiling down kind of qualitative commentary, it sounds like maybe low-to-mid single-digit volume growth in the combined business, pricing waning over the course of the year. Tom, I just want to follow up on Connor's question. You talked about needing to be back to a deflationary environment to return to historical margins. But I guess there's an intermediate place where if we are seeing less inflation, you still have a little bit of effective pricing in the first half of next year. Do we expect to start that path back that this is a year where we're not just kind of operating to protect gross profit dollars, but we can actually see the margin rate start to work its way back towards historical levels, at least get that process going?

Thomas K. Pigott

VP, Assistant Secretary & CFO

Yes. Certainly, Todd, that is a goal of what we're trying to achieve in terms of both driving the productivity and the PNOC. Just in this environment, we're not necessarily seeing enough to really commit that to you in terms of a significant level of margin accretion as the year progresses. But certainly, that is our key focus in terms of driving for improved margin percentages.

Todd Morrison Brooks

The Benchmark Company, LLC, Research Division

Okay. Great. Secondary question. If we go to core SG&A spend and backing out project and the changes year-over-year. How much do you think core SG&A needs to grow, if any, in fiscal '24 for what you're trying to accomplish? And then can we walk through what the next step down in project expenses should be fiscal '24 versus fiscal '23?

Thomas K. Pigott

VP, Assistant Secretary & CFO

Yes, Todd, that -- so as we're looking at SG&A in fiscal '24, we're excluding Ascent, we're really just looking at inflationary impacts in terms of core SG&A. And then with Ascent, we're projecting that to be an approximate \$20 million tailwind in the next fiscal year as that project winds down.

Todd Morrison Brooks

The Benchmark Company, LLC, Research Division

Okay. So \$10 million versus the \$30 million this year?

Thomas K. Pigott

VP, Assistant Secretary & CFO

Yes. Yes, roughly. That's correct. The absolute spend, about \$10 million as we wind things up and optimize, yes.

Operator

And our next question will be coming from Andrew Wolf of CL King.

Andrew Paul Wolf

CL King & Associates, Inc., Research Division

I don't know if you mentioned anything regarding quantification of the 3 somewhat transitory or maybe fully transitory impacts to gross profit in terms of Horse Cave, both start-up and I guess, ERP there and the discontinuation of a retail brand. But could you just comment on them as a group and/or separately how much it was if you quantify it and what this data play us.

Thomas K. Pigott

VP, Assistant Secretary & CFO

Absolutely. So as we look at all 3 together, they combined to be about a \$6 million item for us or 130 basis points of margin impact on the quarter. I think the overall state of play is, as you look at each one of them, certainly, the Horse Cave team has done a wonderful job, and we've seen that production output increase considerably in the most recent period. So we feel very good about that. In terms of the SAP inefficiencies, listen, this -- we've been working through many waves of go-lives, and we're very happy to say we're now complete and we don't expect that to be a driver going forward in the product discontinuation. Certainly we've taken the necessary charge, and we're ready to move on from that one as well.

Andrew Paul Wolf

CL King & Associates, Inc., Research Division

And on the SAP or the Ascent costs, the positive swing. Is that inclusive of the increased amortization charge? Is it net \$20 million or is it a little less than that when you throw in the amortization charge?

Thomas K. Pigott

VP, Assistant Secretary & CFO

So when we look at it, it's \$20 million as would be reported on the Ascent line in our P&L. We will incur a bit of a headwind on the amortization charge in the next fiscal year in the core SG&A, but that's built into my comments of just inflationary. So we're partially offsetting that with other items to get to that profile.

Operator

[Operator Instructions]

And I'm showing no further questions. I'll now turn the call back to Dave Ciesinski for closing remarks.

David A. Ciesinski

President, CEO & Director

Thank you, everyone, for your participation this morning and your questions. We look forward to being back together with you in November as we take you through our Q1 results. Have a great rest of the morning.

Operator

And ladies and gentlemen, this concludes today's conference call. You may now disconnect. Thank you for your participation.

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