



Lancaster Colony Corporation NasdaqGS:LANC

Earnings Call

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Call Participants

EXECUTIVES

David A. Ciesinski

President, CEO & Director

Thomas K. Pigott

VP, Assistant Secretary & CFO

Unknown Executive

ANALYSTS

Andrew Paul Wolf

*CL King & Associates, Inc.,
Research Division*

Brian Patrick Holland

*Cowen and Company, LLC,
Research Division*

Connor Rattigan

Consumer Edge Research, LLC

Todd Morrison Brooks

*The Benchmark Company, LLC,
Research Division*

Presentation

Operator

Good morning. My name is Anita, 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 Second Quarter Conference Call. Conducting today's call will be David Ciesinski, President and CEO; and Tom Pigott, CFO. [Operator Instructions]

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

Unknown Executive

Good morning, everyone, and thank you for joining us today for Lancaster Colony's Fiscal Year 2023 Second 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 on 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. 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 second quarter results for fiscal year 2023.

In our fiscal second quarter, which ended December 31, we were pleased to report both record sales and higher profits. Consolidated net sales increased 11.4% to \$477 million, while consolidated gross profit improved 5.7% to \$102.1 million, and operating income grew 13.3% to \$51.3 million.

The Retail segment's second quarter net sales reached \$259 million, up 5.6%, including the favorable impact of the pricing actions we have taken to offset inflationary costs. Beyond pricing, sales gains were driven by New York Bakery frozen garlic bread and the continued success of our licensing program. The growth of licensed sauces was led by Buffalo Wild Wings and incremental sales from the recently launched Arby's Horsey and Arby's Sauces.

Retail segment sales volumes measured in pounds were up 3.8% in the period due to price elasticity as anticipated, along with the impact of our decision to exit some less profitable product line in fiscal 2022. IRI data for the second quarter showed very strong performance for our [marquee] retail brands. Sister Schubert's, leading share of the frozen dinner roll category increased 140 basis points to 55.4%. Marzetti share of the refrigerated salad dressing category added 110 basis points to 23.7%. And New York Bakery's leading share of the frozen garlic bread category grew 90 points to 43.1%.

In summary, the Q2 top line results for our Retail segment reflect our pricing actions, strong share growth from our core retail brands and contributions from our licensing program, which were partially offset by price elasticity and product line rationalizations.

In our Foodservice segment, net sales grew over 19% driven our pricing actions, along with volume gains for select customers and our mix of national accounts. Foodservice volume was down 4.6% in the quarter, primarily driven by our decision to exit some less profitable product lines in fiscal 2022.

During Q2, we continue to experience high [indiscernible] inflation for raw materials, packaging and freight. That said, we've made great progress through our pricing actions to where our PNOC, or pricing net of commodities, was favorable versus the prior year. This is a continuation of the trend that began in Q1, in which we are recovering some of the negative PNOC we experienced last year. In the quarters ahead, we intend to focus on productivity gains in our supply chain and revenue growth management to improve our financial performance.

Before I turn it over to Tom, I would like to extend my sincere thanks to the entire Lancaster Colony team for all their ongoing commitment and contributions to our improved operational and financial performance.

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

Thomas K. Pigott

VP, Assistant Secretary & CFO

Thanks, Dave.

Overall, the results for the quarter reflected continued top and bottom-line growth driven by pricing actions that offset inflationary costs as well as improved fundamentals.

First quarter consolidated net sales increased by 11.4% to \$477.4 million. This growth was driven by successfully implemented pricing actions in both segments. Decomposing the 11.4% revenue growth, [15.4] percentage points were driven by pricing, the impact of the volume decline Dave mentioned was 4 percentage points.

Consolidated gross profit increased by \$5.5 million or 5.7% to \$102.1 million. Gross profit margin declined by 110 basis points, reflecting the dilutive impact of higher pricing and commodity costs on the percentage calculation. The increase in gross profit dollars reflects favorable pricing net of commodities or PNOC in both segments. If you will recall, in Q2 of fiscal '22, we had negative PNOC as we lagged the rapid run-up in costs. We continue to recover those losses. While our commodity inflation was about approximately 24% this quarter, our pricing actions offset this increase and the majority of the prior year shortfall resulting in the improved performance.

Consistent with the first quarter, our results also reflected improved fundamentals in 3 areas. First, both of our segments have eliminated lower profit businesses and SKUs. Second, through improved planning, scheduling and tactical execution, factory headcount was down for the quarter versus the prior year quarter. Third, inventory days on hand are down versus the prior year quarter, and our mix of inventory is better aligned with demand trends. These items, along with a more stable and predictable operating environment, helped to improve gross profit and significantly improve our cash flow performance.

Selling, general and administrative expenses declined 1.5% or \$800,000. This decrease was primarily due to lower expenditures on Project Ascent. Expenditures for Project Ascent, our ERP initiative totaled \$7.5 million in the current year quarter versus \$8.6 million in the prior year quarter. We also benefited from lower professional fees and timing-related changes in consumer spending. Consolidated operating income increased \$6 million or 13.3% to \$51.3 million, primarily due to the gross profit growth and the reduction in SG&A costs.

In the prior year quarter, we had a change in [contingent] consideration and a restructuring charge. The net impact of these items was immaterial. Our tax rate for the quarter was 22.8% versus 24.3% in the prior year quarter. We estimate our tax rate for the remainder of fiscal year '23 to be 23%. Second quarter diluted earnings per share increased \$0.20 to \$1.45. The increase was primarily driven by the growth in operating income.

With regard to capital expenditures, payments for property additions in the second quarter totaled \$31.9 million. For fiscal year '23, we are forecasting total capital expenditures of approximately \$100 million. This forecast includes approximately \$50 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 on December 30 represented a 6% increase from the prior year amount. Our enduring streak of annual dividend increases now stands at 60 years. Our financial position remains strong as we're debt free with \$95.5 million of cash on balance sheet.

So to wrap up my commentary, our second quarter results reflect revenue growth driven by pricing that served to offset significant commodity inflation. In addition, the company continued to execute well on the fundamentals in a more stable operating environment.

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 three simple pillars of our growth plan to, one, accelerate core business growth; number two, to 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 third quarter, we expect Retail sales to benefit from our expanding licensing program, while in the Foodservice segment, we anticipate continued volume growth from some of our QSR customers. Cost inflation will remain a headwind for our financial results, but we expect our pricing actions and cost savings initiatives to offset the increased cost.

During our fiscal third quarter, we will also continue to ramp up the production in the newly expanded section of our dressing and sauce facility in Horse Cave, Kentucky. In the back half of our fiscal year, SG&A costs will reflect increased investments in our business, including higher levels for spend on consumer promotions. We will also continue to monitor economic conditions for any potential impact on our Foodservice business.

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. We are now in the early days of the third wave of implementation, which will add our dressing and [sauce] production facility in Horse Cave, Kentucky to the new system. As many of you are aware, this facility is the largest plant in our manufacturing network. All is proceeding as planned, and we look forward to completing this important phase of Project Ascent.

Note that during the implementation phase, we will have this facility down for 4 days as part of the cutover process. Our third quarter financial results will reflect the incremental costs associated with this temporary shutdown. I would like to extend my sincere thanks to my teammates for their ongoing efforts on this very important strategic initiative.

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

Question and Answer

Operator

[Operator Instructions] Our first question today comes from Andrew Wolf with CL King.

Andrew Paul Wolf

CL King & Associates, Inc., Research Division

I wanted to -- on volume, there was, like -- it improved. I mean, volumes were still down, but they improved a lot nicely for Retail. And I saw that your direct-to-consumer or your consumer marketing was down, but how about the promotion that is accounted for as a net reduction of sales, particularly trade spending or other items. Did the -- could you give us a little more detail on the evolution of the improvement in volume sequentially this quarter versus last quarter? And what -- did that include promoting? And did that impact the gross margin?

David A. Ciesinski

President, CEO & Director

Yes. It's a great question, Andrew, and I'll take it head on. So our trade spending performance during the period was essentially flat versus the prior period. And on volume, if you adjust for the fact that we had discontinuations in the prior period that we're continuing to work our way through, our volume [ex those] discontinuations was down 1.9%.

And I think when you pull it apart and you look at it across Retail and Foodservice, I'll hit them sequentially, our Retail business remains strong. The business continues to perform very much in line with our elasticities. We posted record shares in New York Texas Toast and we posted record shares in Sister Schubert's as well. Our Marzetti brand and refrigerated dressing continue to do well. And the licensed sauces we've told you before are a bit unique in that it's -- they don't have necessarily the direct competitors on the shelf. So vis-à-vis, the magnitude of the price increases, we feel very good about the volume that we have that's in there and the performance.

Now swinging around to Foodservice. Here, again, I would say that we're seeing -- we're optimistic about what we're seeing. So traffic across the whole industry was essentially flat in the period. And that was marginally better than it was in the preceding quarter. And if you look at our mix of customers, it reflects that. We had several customers, Chick-fil-A first among them that were growing traffic. Taco Bell was also strong. Olive Garden was strong. But there were some others in the space that were a little softer.

But what continues to give us a measure of optimism when we look at volume is that our elasticities in Retail are performing in line with our expectation. And really, we have our new items that are back-half loaded as we've shared with you guys throughout the period, this fiscal year to date.

And in Foodservice, I would tell you the same thing. We remain cautiously optimistic about the consumer and we have LTO activity that's planned in the back half. So net-net, we think our volume is holding up in line to slightly better than our expectations at the beginning of the year.

Andrew Paul Wolf

CL King & Associates, Inc., Research Division

That was a pretty full explanation. So on the gross margin specifically, are there any things in there to call out with regard to getting Horse Cave up and running? Is there some -- obviously, when Horse Cave is running, whenever that is, sometime in the future, that will have an impact that I'd like to know about too. But particularly in the quarter, was there any disruption there? And...

David A. Ciesinski

President, CEO & Director

[indiscernible]

Thomas K. Pigott*VP, Assistant Secretary & CFO*

So yes, this is Tom. On the quarter and the margins, one of the things we did see, obviously, year-over-year, we've got quite a bit of commodity inflation. And when you put in \$50 million of higher inflationary costs and \$50 million of pricing, you get a natural dilution of over 200 basis points on our P&L. So year-over-year, that's a key driver.

Now sequentially, we did see much higher egg costs and a couple of other commodities that resulted in some of the dilution you're seeing sequentially. But overall, despite those higher costs, we were able to, from on a dollar basis, offset it, and still grow our gross profit in this more challenging environment.

David A. Ciesinski*President, CEO & Director*

And Andrew, if I can maybe go in on Horse Cave, the start-up has gone very much in line with our expectations, if not better. So the factory has gone live. It's up and running in the new section. We're servicing customers out of that exactly as we had planned.

In my prepared comments, I mentioned that we were going to be taking it down in this period for several days and that's because of the SAP cutover. But I wanted to make sure that you and others understand that. We went out and we said we intended to bring that facility up with that new expansion, and that team down there has done a fantastic job. It's brought it up. And maybe a little bit later in the comments, I'll talk about new items that we have on the horizon, and it's been a blessing because we've seen a resurgence in demand on Buffalo Wild Wings and that new capacity has enabled us to keep up with that surge in demand.

Operator

The next question comes from Brian Holland with Cowen.

Brian Patrick Holland*Cowen and Company, LLC, Research Division*

If I could just start with the Retail segment top line. It strikes me that the track sales in [Nielsen] were -- grew at about 2x your reported [indiscernible]. Curious where the delta comes from? I'm not sure if that's still a little bit of byproduct of folks working off inventory from the pull forward in demand or if there's that [indiscernible], which I understood to be more on Foodservice side, but maybe if you could [segregate] the impact of SKU rat on Retail, if there was any?

David A. Ciesinski*President, CEO & Director*

Yes. So you're exactly right. If you look at the [indiscernible] consumption, it was, in fact, stronger than what we shipped in the period. Honestly, we can't necessarily speak to whether it was a deload or something else. But generally, we have been shipping to consumption. And it's just -- I would say it's just a bit of a timing thing that's going on there.

As we look in on the magnitude of the discontinuations on Retail alone, that accounted for several points of growth as well in terms of shipments that are in the mix.

Thomas K. Pigott*VP, Assistant Secretary & CFO*

Yes. Brian, on the Retail impact, it was a little over 100 basis points. And then I think if you really peel it back, where we saw the biggest disparity in terms of shipments, our revenue versus consumption is, obviously, Chick-fil-A's doing extremely well, the licensed product. And I think in the prior year period, we were still building some inventory. So that may be what you're seeing.

Brian Patrick Holland*Cowen and Company, LLC, Research Division*

What about anything in the non-track channels that would be a factor one way or the other to explain the delta, whether you might be lapping -- whether you lapped a program or anything like that? Just curious.

David A. Ciesinski
President, CEO & Director

Not really. No.

Brian Patrick Holland
Cowen and Company, LLC, Research Division

Okay. Okay. And then to go back to the gross margin component again. So I guess what I'm trying to reconcile is I understand the gross profit dollar growth. I understand PNOC going from negative to positive and some improved mix. But it didn't convey to gross margin improvement, either sequentially or year-on-year. And it doesn't sound like start-up costs for Horse Cave were material. But again, if there's something there to call out just so we understand. I just kind of want to -- maybe we'll just start there to level set and then think about what the path forward is just based on what you're dealing with both upstream and downstream.

Thomas K. Pigott
VP, Assistant Secretary & CFO

Yes. So when you look at the percentage margins, when you lay in all the commodity inflation, and keep in mind, our inflation is a lot higher than our peers, really due to our exposure to soybean oil. And this quarter, in particular, eggs were up quite dramatically. And so, when you factor that in and you say, okay, I'm going to add \$50 million of inflationary cost to the P&L and you price for it, you've got that natural dilution that occurs.

Sequentially, as I mentioned, it really was the eggs, and soybean oil was up sequentially and then we also had some tomato costs that were up sequentially. So that's why you're seeing all that dilution despite the positive PNOC.

As you go forward, we feel like we're going to definitely grow our gross margin percentages versus the prior year, certainly in Q3, and we're looking at Q4 now to try to make sure that we are successful there as well. But keep in mind, it's -- this -- until we see some sort of stabilization of costs, we do have this dilutionary impact. And certainly, if we get to a point where some of these commodities moderate and come down, it will certainly be gross -- the percentage dilution. Certainly, we're focused on growing the penny profit and happy with the quarter's performance.

Brian Patrick Holland
Cowen and Company, LLC, Research Division

Okay. That's great. If we could just kind of double-click on the commodities component. So first, looking, I guess, a little bit [indiscernible] backwards. I think you said input cost inflation was something like 24% this quarter. Is that -- was -- forgive me that I don't have this at my fingertips, is that an acceleration versus the magnitude of inflation you faced in 1Q?

Thomas K. Pigott
VP, Assistant Secretary & CFO

Yes. Yes.

Brian Patrick Holland
Cowen and Company, LLC, Research Division

Okay.

Thomas K. Pigott
VP, Assistant Secretary & CFO

It was. And...

Brian Patrick Holland

Cowen and Company, LLC, Research Division

Okay. Go ahead. I'm sorry, Tom.

Thomas K. Pigott

VP, Assistant Secretary & CFO

Yes. And it was -- like I said, it was -- the unforeseen run-up in egg costs sequentially was a key driver.

Brian Patrick Holland

Cowen and Company, LLC, Research Division

Yes. And then if we roll that forward, I guess maybe a two-part question here. One, where are you kind of from a hedging standpoint? Eggs are what they are right now. Obviously, there's some discussion that maybe the flocks are improved by [indiscernible] second half of calendar 2023. Maybe we could get some cost relief. But I don't know if you're in a position to capture that based on what your forward buying looks like. And then kind of a similar dynamic because we're hearing encouraging news on the oils and those prices coming down. So I don't know, Dave or Tom, if you have commentary there. Just trying to get a sense of we think inflation as you're looking at it right now moderates from here.

David A. Ciesinski

President, CEO & Director

So maybe I'll jump in and then have Tom come in and add more color. On hedging on eggs, to remind you, eggs are an area where it's difficult to hedge. With our whole eggs, we buy on grain-based agreements. So as grains move up and down, so do the cost of our eggs. I would say there, we've been able to somewhat take a more modest impact, but inflation, nonetheless. But we also buy yolks for some of our formulas and you cannot hedge against those yolks. What we've been able to do is get forward protection, which is 90-day pricing protection, which brings me to the second part that I want to bring in, on things like eggs and even oil as we see it continue to move, we're continuing to hedge where we can and then price where we can to make sure that we're passing those along.

So on these items where we saw the exposure in this period, we have pricing actions that have gone into flight particularly for areas that -- or products that are heavy consumers of eggs, whether they're in Foodservice or whether they're in Retail.

Brian Patrick Holland

Cowen and Company, LLC, Research Division

Appreciate the color. Last one for me and forgive me today for being very model-specific and not asking some of the fund strategy questions I typically like to hear Dave opine on. Hopefully, someone else in the queue will get to some of that. But is there -- as you look at your -- as you look at where you are today, expectation that further pricing is needed, do you think you've got it all in there at this point? Do you expect to have to take more? And if so, maybe where -- is that Foodservice driven or Retail?

Thomas K. Pigott

VP, Assistant Secretary & CFO

Yes. So Brian, as Dave mentioned, there are a number of actions in flight. All of those have been successfully sold in. So we feel -- we continue to feel good about our ability to price to cover this, so -- in both segments. So there's not a concern for us in terms of retailer pushback at this stage. We're able to get the pricing in. As Dave mentioned, with the more recent run-up, there are additional actions that are in flight to help us.

David A. Ciesinski

President, CEO & Director

Maybe I'll add to that point. If you remember, last year, at this time, we were talking about the fact that our pricing was lagging the inflation. In Q1, we were PNOC positive, where actually our pricing exceeded

the costs that were coming in, helping us recoup. In this period, we were PNOC positive again, and we expect that trend to continue forward.

So I think even where we're seeing this shift, it's on the margins. We should have been more PNOC positive were not for the run-up in that short term in things like eggs. But I think what we want to convey, Brian, in terms of the model is as we're seeing it come through, and we can't hedge it, or even if we can, we're pricing for it and we're pushing forward. So we feel like that muscle is fully developed and we're utilizing it.

Operator

The next question comes from Todd Brooks with the Benchmark Company.

Todd Morrison Brooks

The Benchmark Company, LLC, Research Division

Quick question following up on Brian's last question. If you look at -- and Dave, you just talked about where you can't hedge, you'll go out and try to price for continued either sticky or even accelerating inflationary pressures and spots. How does that vary by channel right now? How do you think about pricing in the Retail channel, willingness to take it relative to the elasticity that you're seeing? And kind of that early shot across the bow from Whole Foods trying to push back on suppliers already. Do you feel like pricing will be easier to get in the Foodservice segment going forward if needed versus the Retail segment?

David A. Ciesinski

President, CEO & Director

Brian -- Todd, rather, our conversations on pricing continue to be very constructive, both in Retail and in Foodservice. I'm looking at a sheet that shows me about a dozen discrete pricing actions that are going into effect in this -- at the very end of our second quarter and early on in our fiscal third quarter, which is now. And these are all conversations that were had in Retail that have sold through. And on Foodservice, those conversations remain the same.

I do want to go back and clarify a little bit on things where I saw Whole Foods' announcement on commodities. And I don't know what data they're looking at, but it doesn't necessarily line up with the data that we're looking at. What I would tell you is things may have eased off of their high and discrete categories, and maybe that's particularly true in some of the commodities that they're buying. But 1.5 years ago, we were looking at 20% inflation on raw material and packaging. We're looking at 20% inflation through the remainder of this year.

And even as we look forward, we're continuing to see inflation, albeit at a lower rate. And that's just on raw material and packaging. So any areas that you may see some modest pullback is being overcome by areas where we're continuing to see inflation. And that particularly, I would point to things like beans.

The price on the board may have pulled back some, but [basis], which we really need that when you factor in what the total delivered cost is, is still remaining very, very high. So net-net, we're not seeing relief on inflation. We wish we were because we would be net beneficiaries. And we don't have any intention at this point to roll back our prices because the economics of our market basket don't support that.

Todd Morrison Brooks

The Benchmark Company, LLC, Research Division

Okay. Great. Can I add a follow-up then, does that just...

David A. Ciesinski

President, CEO & Director

Yes, please.

Todd Morrison Brooks

The Benchmark Company, LLC, Research Division

And Tom, I think last time we talked about pricing, I was going to kind of waterfall over the course of this fiscal year. I think we were looking to be running high single digit in Foodservice and maybe mid-single digit at Retail. How does that change with these actions that you're anticipating taking for the back half of the year?

Thomas K. Pigott

VP, Assistant Secretary & CFO

Yes. So excellent question. So we're now more high single digit in Retail and very high single digit in Foodservice. So we are looking at more pricing than we had initially anticipated based on these more recent commodity moves.

Todd Morrison Brooks

The Benchmark Company, LLC, Research Division

Okay. Great. And then I'll slide in a more strategic question just Horse Cave. Now that we're up and running and producing product out of that facility, Dave, can you walk us through maybe a Horse Cave ramp timeline? How does -- long does it take to ramp fully? Then where do we go as far as that full ramp? We unlock maybe the Chick-fil-A expansion opportunities with larger pack sizes, additional flavors. How do we unlock maybe some other licensed programs with the capacity that's come online? And then finally, where in that process does [co-man] volume maybe come out and go back into an owned facility?

David A. Ciesinski

President, CEO & Director

Yes. So good questions across the board. Love talking about these because it gives us a chance to talk about the strength of the top line of the business.

So maybe first, just focusing in on the factory itself. So I mentioned earlier that the start-up has gone very much in line with our plans. We're literally producing hundreds of thousands of cases out of the facility now. And it's enabled us to keep up with a really sort of a fun spike in demand that we've seen on BWW. I know most of you probably aren't TikTokers. I don't claim to be one, but as a case in point, we had two aspiring TikTokers that created recipes for a meal that included the Buffalo Wild Wings garlic parm sauce. And both of those videos combined have over 25 million views, and that product has been absolutely on fire, resulting in a big surge in demand well in excess of what we had in the forecast, and the fact that Horse Cave has been up and running has enabled us to meet that surge in demand and go.

So really, Todd, for all intents and purposes, it's running and it's out there to meet our demand, and we need it because as we look forward, if you remember, it's March when we go into the full rollout in Retail of our new items. That's the large size of the Chick-fil-A sauce, that's the barbecue and the Sweet & Spicy Sriracha on Chick-fil-A. It also includes the [caesar] item that we have for Olive Garden, and not to mention just a whole lot more energy behind Buffalo Wild Wings.

So I would tell you, I'm just thrilled with the progress that the team has made there. And our view now is just how high is high and how fast is fast as we look to run that item. So it's a good story. And on Retail as well, it's out there. It's producing product. And we just look forward to sweating it harder.

Now your last question was how does this factor in on co-pack? To the degree to which we have co-pack agreements, we're honoring those, but we expect those to wean down through the remainder of this year and early into next year and then to bring that virtually all of that volume back in-house.

Todd Morrison Brooks

The Benchmark Company, LLC, Research Division

Just a follow-up on that, and then I'll pass it along. Tom, if we're bringing that co-pack volume back in, as we think about -- I know we talk margin dollars more than we talk margin rate. But just kind of what type of benefit from a margin rate is in-house production versus co-pack production.

Thomas K. Pigott*VP, Assistant Secretary & CFO*

Yes. So we talked about it being a dilutive impact of 100 to 200 basis points throughout. So over time, we'll get that dilution back. So it's certainly will be a catalyst as we go forward.

Operator

The next question comes from Connor Rattigan with Consumer Edge Research.

Connor Rattigan*Consumer Edge Research, LLC*

Yes. So just a quick one for me here at the end of the call. So it seems like you're seeing greater elasticity at Retail versus Foodservice when adjusted for SKU rationalizations. And so, obviously, the Retail and Foodservice businesses are quite different. But I guess, just why we think Foodservice volumes have remained so strong, right? I mean it seems to run contrary to popular belief. You'd assume consumers would dial back meals out before cutting back on the grocery basket.

David A. Ciesinski*President, CEO & Director*

Yes, it's a great point. We're just not seeing it so far, Connor. If past is prologue, we would see exactly that sort of thing. But so far, the consumer is remaining resilient. And when you look at the traffic, really, which -- we have pricing discussions with our customers. They either reflect those on their menu or they don't. And then ultimately, what it comes down to is what's happening on traffic.

Consumer traffic in these concepts, and you follow the data like we do, has remained quite resilient. I mentioned on the call that traffic overall was flat for the industry versus the prior period. And if you look at it, it was sequentially stronger than the period before. And now if you dial it in, you look at our portfolio, we have Chick-fil-A. And Chick-fil-A continues to drive traffic growth and that helps us as well. So when you look at the mix of business, our business versus others, I think part of what you're looking at is influenced by the strength of the Chick-fil-A franchise in our business that's showing that.

Operator

The next question is a follow-up from Andrew Wolf with CL King.

Andrew Paul Wolf*CL King & Associates, Inc., Research Division*

Yes. On the inventory being down, particularly the finished goods inventory down 7% or so, at least from the end of the last fiscal year, that includes the inflation in producing it. So -- I mean what is the inventory down on a case basis? It sound -- could I just add 20% to that and say that the cases are down 25% using round number? Or am I not thinking of it the right way?

Thomas K. Pigott*VP, Assistant Secretary & CFO*

You're close, not quite that much, but it's down sizably in terms of units of inventory. And last year, we had a lot of unstable demand. So we built up -- we got long on some items. And this year, through -- as I mentioned in my script, there's some better tactical planning and execution, we've been able to drive that inventory down and really help our cash flow performance. So thank you for that question.

Andrew Paul Wolf*CL King & Associates, Inc., Research Division*

Sure. And it's -- I know that's part of your plan. And -- but just to revisit, I think Brian asked you about this, and I just wonder kind of reasking. Is there any -- have you heard anything even anecdotally, if you can't wrap it up and say that's for certain, whether the Retail trade may be destocked a little bit for the December quarter because -- or the Foodservice, it sounds like the Foodservice -- you're part of

Foodservice, QSR did good enough. But did you see anything in Retail or anybody destocking, whether to shore up their balance sheet or get their cash flow to look better or maybe they had a little less demand in December and they just took down -- deferred orders? Or anything anecdotally because, like we're trying to figure out what's going on with -- like Brian brought up, consumption versus [indiscernible]?

David A. Ciesinski

President, CEO & Director

Yes. No, there -- we've stayed obviously really close to our sales teams on Retail and in Foodservice, and there haven't been any conversations like that. So there's nothing that we can point to specifically. Having done this a while, like Tom and the rest of us here, you see this periodically you'd much rather see what we're seeing now where your consumption of the shelf is faster than your shipments than the other way around. But just generally, if we're looking at the business, and we look at the fundamentals, it's tracking very much in line with our expectations.

What I would also tell you is even on things, like, one question could be is, are there execution issues inside where we're having problems getting the product out? Our on-time and in-full was higher in this period than it was last year same period. So we're continuing to see sequential improvements on all sorts of operating metrics, not just improved inventory, but our service levels have improved, even our safety in our plants have improved. We've really just spent the last year trying to buckle down to tighten up execution and end-to-end coordination.

Operator

The next question is a follow-up from Todd Brooks with The Benchmark Company.

Todd Morrison Brooks

The Benchmark Company, LLC, Research Division

Just a couple of quick follow-ups, if I may. What's the timing on the Horse Cave cutover? When that 4-day shutdown will be? I'm just wondering where that is?

David A. Ciesinski

President, CEO & Director

This weekend.

Todd Morrison Brooks

The Benchmark Company, LLC, Research Division

Okay. Perfect. So we're in the middle of the quarter. So we don't really need to think knock wood obviously, but we don't need to think about any impact to how we model the quarter for the shutdown given it's a mid-quarter shutdown, assuming all goes well?

Thomas K. Pigott

VP, Assistant Secretary & CFO

Yes. We're looking at it as a modest headwind. If everything goes well, certainly, we lose -- there's a couple of headwind factors to it. We do lose those production days and you've got the factory absorption impact. And then certainly, there's a cost to training and a start-up cost. So there should be a bit of a modest headwind in Q3 from it. It's difficult to quantify what it will be until we actually are through it, but we'll certainly keep you posted.

David A. Ciesinski

President, CEO & Director

And part of it is just the absorption hit because we have the factory down for 4 days, and this is a factory that would be running 24/7. So if you just look at the rough math 90 days in a period, 4 days in the period are going to be down, which is just going to drive a little bit -- on top of what Tom described, a little bit of modest absorption.

Todd Morrison Brooks

The Benchmark Company, LLC, Research Division

Okay. Great. And then my other follow-up was on the G&A side. I think you talked about some timing changes in consumer spend. I mean if I back out the onetime Project Ascent costs, it looks like SG&A is running just north of 9%. What's the right level set to put that at based on the commentary around maybe some accelerating consumer spend as we look to the back half of the year?

Thomas K. Pigott

VP, Assistant Secretary & CFO

Yes. Yes. So I'm glad you brought that up because we do expect to be spending more in consumer in the back half as we continue to drive volume growth for -- continue to drive volume in the business. The Ascent -- we also mentioned the Ascent cost coming back to the [basis] business previously, and that's \$5 million or \$6 million incremental in the year, slightly back-half loaded. And then we have some additional other costs that -- and compensation expense that we're anticipating in the back half.

When you look at it as a percent increase on the full year, when you take out the Ascent costs rolling in, we're looking at more of a 3% to 4% increase and then the Ascent costs adding to that. So I think when you do the math on that, we will have a lot of catch up on -- a fair amount of catch-up in SG&A. But overall, the full year profile will be in line with kind of our expectations initially.

Operator

If there are no further questions, we will now turn the call back to Mr. Ciesinski for his concluding comments.

David A. Ciesinski

President, CEO & Director

Thank you, Anita, and thank you, everybody, for joining our call today. We look forward to seeing you guys out on [NDRs] in the forthcoming period. And if we don't see you sooner, we'll talk to you in May. Have a great rest of the day.

Operator

This conference has now concluded. Thank you for attending today's presentation. You may now [disconnect].

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