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Lancaster Colony Corp. (LANC)

Q4 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Andrea, and I will be your conference facilitator today. At this time, I would like to welcome everyone to the Lancaster Colony Corporation Fiscal Year 2021 Fourth 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.

I would now like to hand the call to Dale Ganobsik, Vice President of Investor Relations and Treasurer for Lancaster Colony.

Dale N. Ganobsik

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

Good morning, everyone, and thank you for joining us today for Lancaster Colony's Fiscal Year 2021 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 on our company's website, lancastercolony.com, later this afternoon.

For today's call, Dave Ciesinski, our President and CEO, will begin with a business update and highlights for the quarter. Tom Pigott, our CFO, will then provide an overview of the financial results. Dave will then share some comments regarding our current outlook and strategy. 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, Chief Executive Officer and Director, Lancaster Colony Corp.

Thanks, Dale, and good morning, everyone. It's a pleasure to be here with you today as we review our fourth quarter and full year results for fiscal year 2021 and look ahead to fiscal year 2022.

I'd like to begin by extending a sincere thank you to the entire Lancaster Colony team for their exceptional efforts and countless contributions throughout fiscal year 2021. The record sales of \$1.5 billion and record of gross profit of \$387 million reflects the commitment and resolve of our associates to overcome the many challenges posed by the impacts of COVID-19. Throughout the pandemic, we've remained steadfast that our mission is fixed: first, to provide for the health, safety and welfare of our teammates; and second, to ensure that we continue to play our role in our country's vital food supply chain. We continue to monitor the protocols and guidelines provided by government health authorities and make necessary adjustments to promote safe operations at all of our plants and distribution centers.

In our fiscal fourth quarter, which ended June 30, consolidated net sales grew 20.2% to a record \$386 million. Net sales in our Retail segment grew 11.4%, while net sales in our Foodservice segment surged 33.3%. The 11.4% growth in our Retail net sales comps to a strong fourth quarter last year when Retail net sales grew 24.5% as the impact of the pandemic drove increase at home food consumption.

Retail net sales in this year's fiscal fourth quarter was driven by our licensing program led by Chick-fil-A and Buffalo Wild Wings sauces. Chick-fil-A sauces alone accounted for over 14 percentage points of Retail sales growth. As planned, our rollout of Chick-fil-A sauces into the Retail channel reached national distribution near the end of April. Per IRI data, the household penetration and repeat rates for Chick-fil-A sauces continue to meet or exceed our expectations. From a sales standpoint IRI scanner data showed that total US sales reached \$38.1 million for the 13-week period ended June 27. We remain extremely excited about the outlook for Chick-fil-A sauces in the Retail channel.

With respect to our own brand, per IRI data, we continue to grow market share in several Retail categories during the quarter. This includes market share increases of 480 basis points for New York Bakery frozen garlic bread, 60 basis points for Marzetti produce dips and 75 basis points for our branded croutons. I'd also like to note that compared to two years ago, our fourth quarter Retail sales were up in nearly all of our product categories. When compared to our fourth quarter ended June 30, 2019, excluding all licensed program sales, our fourth quarter Retail sales were up over 10%.

In our Foodservice segment, the significant 33.3% increase in net sales resulted from volume gains throughout our customer base. Sales to leading QSR and pizza chain customers remained robust, while sales to midscale and casual dining concepts recovered notably as we lap last year's weak demand attributed to the impacts of COVID-19. NPD data for foodservice industry shows that while traffic was lower, industry-wide sales for the month ended June of this year had recovered above pre-pandemic levels, exceeding sales for June of 2019 by 8%.

Fourth quarter consolidated gross profit increased 8.5% to a record \$96.7 million, driven by the strong sales growth and our ongoing cost savings programs.

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

Thomas K. Pigott

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

Thanks, Dave. Overall, the results for the quarter exceeded our expectations. As Dave highlighted, the strong top line performance in both segments allowed the company to drive improved bottom line performance. Fourth quarter consolidated net sales increased by 20.2% to \$385.6 million. Consolidated gross profit increased by \$7.6 million or 8.5% to \$96.7 million. The growth was primarily driven by higher sales volume in both segments and improved cost absorption.

In addition, we benefited from commodity driven pricing in our Foodservice segment and from savings related to our vacation policy change that we discussed last quarter. Offsetting this favorability were high raw material costs as well as labor and freight inflation. We also incurred higher co-manufacturing costs as we outsourced production to meet our growing demand.

Gross margins declined by 270 basis points versus the prior year quarter, primarily due to the higher commodity costs in advance of our pricing actions and the mix shift to our Foodservice segment. COVID-19 related costs were consistent year-over-year. Selling, general and administrative expenses increased \$6.9 million or 14.2%, primarily driven by higher spending for Project Ascent. We also restored consumer spending and increased our IT investments. These items were partially offset by the lapping of the original Horse Cave expansion write-offs that occurred in the prior year quarter.

Consolidated operating income increased by \$742,000 or 1.8% to \$40.9 million. The key driver of the operating income growth for the quarter was the strong top line performance, offset by the investment we're making on Project Ascent.

Our effective tax rate was 22.4% this quarter versus a tax rate of 24.6% in the fourth quarter of fiscal 2020. This quarter's tax rate benefited from some reduction to our state tax rate. We estimate the tax rate for the fiscal year 2022 to be 24%.

Fourth quarter diluted earnings per share increased \$0.05 to \$1.15. The increase was driven by the underlying performance of the business and the lower tax rate, offset by the investment we're making in Project Ascent. The Project Ascent investment reduced EPS growth by \$0.13 per share.

With regard to capital expenditures, fiscal year payments for property additions totaled \$88 million. This amount was lower than expectations due to the timing of payments for projects we currently have underway. For our fiscal year 2022, we are forecasting total capital expenditures between \$170 million and \$190 million. This forecast includes approximately \$100 million for the Horse Cave expansion project that will help us meet the increasing demand for our dressings and sauce products.

In addition to investing in our business, we also return funds to shareholders. Our quarterly cash dividend paid on June 30 was \$0.75 per share, a 7% increase from the prior year amount. Our longstanding streak of annual dividend increases reached 58 years in December. Even with the investments we're making and the increased dividend payments, our financial position remains very strong as we finished the quarter debt free with \$188 million in cash on the balance sheet.

So to wrap up my commentary, this quarter featured strong growth in both segments and solid execution of our strategies across the business. We continue to monitor and adjust to the impacts of the COVID-19 outbreak while investing in the long-term potential of the business.

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

David A. Ciesinski

President, Chief Executive Officer and 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: one, to accelerate our core business growth; two, to simplify our supply chain to reduce our costs and grow our margin; and three, to identify and execute complementary M&A to grow our core.

In fiscal year 2022 our Retail segment will have tough comparisons to the strong growth we experienced in fiscal year 2021. Nevertheless, we expect Retail sales will benefit from the growth of our licensing program and other new items. In the Foodservice segment, we anticipate increased consumer demand for in-restaurant dining will lead to higher sales in the coming year.

In fiscal year 2022 we are forecasting a notable increase across the board in commodity costs but particularly in soybean oil. Higher packaging, labor and freight costs will also pose a headwind to our financial results. To help mitigate these rising costs, we have pricing initiatives in place for our Retail segment. From a timing standpoint, pricing in Retail will begin to take effect in late September and early October.

With respect to our Foodservice segment, as many of you are aware, the contracts with our Foodservice customers are written to allow for periodic price adjustments to offset changes in commodity and freight cost. Our ongoing cost savings programs will also help to partially offset the unfavorable impact of inflation in the coming year.

Note that our projected financial results and expectations for fiscal year 2022 remain subject to the impacts of COVID-19, including shifts in consumer demand between Retail and Foodservice channels and potentially higher costs to produce our products and service our customers.

Moving on to our supply chain strategy. Our significant investment in production capacity, our dressing and sauce facility in Horse Cave, Kentucky is moving forward as planned with the target completion timeframe in the first quarter of fiscal year 2023. A smaller expansion project of one of our production facilities located in Columbus, Ohio is on track for completion this December. That project will provide some additional capacity needed to support the growing demand for dressing and sauce products in our Foodservice segment.

Additionally, because of the robust demand we are experiencing across our portfolio, we are evaluating additional ways to expand our supply footprint. To-date, we've increased our use of co-manufacturing. Going forward, we're also evaluating other alternatives.

Given the COVID-related volatility and demand and the tenuous disposition of the global supply chain, we've elected to defer implementation for Project Ascent, our ERP initiative, to the start of fiscal year 2023. This will allow us to prioritize servicing the shifting demands and growth of our business.

In closing, I would once again like to thank the entire Lancaster Colony team for all that they've done to make fiscal year 2021 a great success. 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 today, and we'd be happy to take any questions you may have.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Todd Brooks with C.L. King & Associates.

Todd M. Brooks

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

Q

Hey. Good morning everybody. Congrats on the revenue results in both segments. Good to see the Foodservice lift that we did in the quarter certainly.

David A. Ciesinski

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

A

Hey. Thank you, Todd.

Todd M. Brooks

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

Q

Two questions, if I may. One is around, if you can put a little color on maybe that the pricing success that you've had at Retail and how we should kind of boil that success down and, like you mentioned, the pass-through nature of the Foodservice segment from a cost pressure standpoint. Can you dimensionalize it a little bit for us with the success that you had as far as what we should be thinking for maybe gross margin trends as we look to the fiscal 2022 versus fiscal 2021?

David A. Ciesinski

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

A

Yes, most certainly. I'd be happy to do that. First, if you remember when we did our Q3 call, we said, hey, inflation is on the horizon. One of the things that we're planning for is pricing. One of the things you're going to want to monitor is our ability to price. And we're happy to report that following that call, we had conversations with our Retail partners, dimensionalized the inflation, the pass-through price increases and those have been successfully received. And as I mentioned in the script, we expect in Retail for those changes to be reflected on the shelf in September and on the late side in early October. So that's highly encouraging news.

On the Foodservice side, as you highlighted, we have a process built into our contracts that sort of marks to market. As we see the inflation, we go back and work with them the pass-through the commodities and transportation, and that fully remains in place as well. So the good news is from a structural perspective, all of that is firmly in place. And I think in the long term, that's going allow us to – and in the intermediate term to work past the impact of inflation.

As it pertains to the impact in gross margin, maybe there's one other nuance that I'd like to add for you that you need to think about. And the first is I'd like to just dimensionalize for you and for everybody else that's on the call

the magnitude the inflation that we're seeing. So if you look at our business, our COGS are about \$1 billion, 60% of which are commodities, raw materials and packaging. When we look at our basket of goods for fiscal year 2022 going forward, we're looking at inflation of roughly 20% for that basket of goods.

A little bit more than half of that is soybean oil. But suffice it to say, we're seeing inflation that's broad-based across every category of our spend. And I mentioned soybean oil because I know you cover lots of other companies, and every company has a little bit different profile in terms of what drives their business. And with us, soybean oil is an important thing that you're going to want to track, seed oils in general, but soybean oil in particular.

Now with this, the reason why I pivoted the cost and now will come back to pricing is because when we see that pricing, the inflation come to us, we're passing that along dollar for dollar back to our retailers. What we're not doing is pricing to protect margins. We're pricing to protect the cost inflation that comes in. And on the Retail side, what happens with that is we end up with some modest delusion against margins. So we fully expect in the short term and in the intermediate term to see some margin dilution against the business for a couple of reasons, but one of which, the most significant of which, is this fact that when we do see inflation of this magnitude and we priced at the dollar of the cost increase, that we are going to see some modest dilution in the business.

Todd M. Brooks

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



That's very helpful, Dave. Thanks. And just a follow-up there, and I don't think the story has been written yet for kind of transitory versus some permanent pressure on costs. If you look historically and maybe there's not an analog to compare this to, your success in taking price, how sticky is that if we do see supply chain-related improvements that do allow costs to come down relatively quickly as we move through fiscal 2022?

David A. Ciesinski

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



I thought a lot about this, Todd. It's a great question. I think we almost have to go back to the 1970s and the early 1980s to look at inflation that was of this magnitude. And if you look at it, that period of time was the heyday for consumer packaged goods companies for the precise reason that they did see inflation and they were able to pass that inflation along.

If pass-through is prologued on the Retail side, the pricing is extremely sticky. On the Foodservice side, particularly given the nature of what we do, that we mark to market, it's conceivable that if we see a pullback in some of these areas on the inflation, we would obviously adjust our prices down and it would go the other way, right? It's just as we pass it through dollar for dollar on the way up, we would pull it out dollar for dollar on the way down. And that's for the national account piece.

But all indications are so far that the first step is falling into place, that we've had conversations with retailers across the board. They're seeing it in their own private label, and they've been supportive of the conversations.

Todd M. Brooks

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



That's great. And then my final question, if you look at – and there's lots of evidence of Lancaster chasing historically strong demand rebound and then just demand growth from not just the licensed products but success in market share gains. As we look across 2022 and 2023, what's your road map for some of the actions you've had to take, whether it's reaching out to co-manufacturers or maybe delaying growth in other verticals like drug

and discount to service this kind of surge in demand that we're seeing now? How do you see that unfolding? Kind of can you give us a map to – okay, we're going to be in a place to service this level of demand in 2030 with Horse Cave. It's going to take more than that. Can you kind of just help walk us through internalizing some of this outsourced manufacturing that you're needing right now? Thank you.

David A. Ciesinski

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

A

Sure. Sure, I'd be more than happy to. And first, I think I would start with the overall assumption that we're thrilled with the strength of the demand for our products both in Retail and in Foodservice. Some of the actions that we're taking are unique to this particular point in time, given COVID and the labor uncertainty. So maybe what I would say is let's take COVID and labor uncertainty and let's move that to the side for a second, and let's just talk about the actions that we're putting in place to support the short term, intermediate term and long-term growth in our business.

First thing that we're doing obviously is adding incremental shifts to our own facilities to make sure that they can run. The second thing that we've done, that we shared with you, is that we put in place capital expansion projects, the most significant of which is the Horse Cave project that's about a year out. And then to bridge that gap, what we put in place was an expanded use of co-manufacturing partners. And all three of those pieces are coming along exactly as we intended.

What we're beginning to see now, Todd, is as we look across the horizon, we look at the strength of the velocity on the Chick-fil-A item, the strength of the demand for Buffalo Wild Wings and just the continued growth of our produce dressing, of our produce dips and other items within our portfolio. As I mentioned in my script, we're now looking even one step further out beyond Horse Cave because we're doing scenarios where we're looking three years out and we could see that we would be potentially tight again. So when I referenced what are actions that we're putting in place, we're starting to look at, okay, are there co-manufacturing relationships that we would want to even be longer term and not necessarily a shorter, intermediate term fix but do we look for a strategic relationship with a co-manufacturing partner.

What we're also looking at candidly is brownfield scenarios and even – and potentially purchasing a co-man should that opportunity present itself. But I would sort of frame this in the context that this is all sort of predicated on the fact that we're looking at the performance of these items. We're looking at the strength of the demand in our Foodservice business. And it's an exciting time for us. What we want to do is just make sure that we're taking those actions with enough forethought and enough time to make sure that we just allow for seamless growth as long as this is presented before us but also thinking about contingencies if in the event it were to slow down off of this galloping pace that we're at.

Todd M. Brooks

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

Q

That's great. Thanks, Dave, and I'll pass it along to the next questioner. Thanks.

David A. Ciesinski

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

A

Thank you, Todd.

Operator: Your next question comes from the line of Greg Pandy with Sidoti.

Gregory Pendy

Analyst, Sidoti & Co. LLC

Q

Hi, guys. Thanks for taking my questions. Just the first one, can you just give us any color on repeat purchases in Chick-fil-A?

David A. Ciesinski

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

A

Yeah. It's been extremely strong. So if you look at the markets where we've been in the longest – maybe I would predicate with the following. If you look at the national launch, it's only been in place since April. So we really don't have on a national basis strong repeat information. It's just too early in the purchase cycle. But if we look in areas like the Southeast, what we're seeing is repeats are in the high double digits in the 40% to 50% range, and we're seeing household penetrations that are also in the double digits.

Gregory Pendy

Analyst, Sidoti & Co. LLC

Q

Great. And then just as you talk about inflation, you're probably not alone. But just when you look at your portfolio of brands, where do you think the risks or opportunities in terms of substitution from consumers when they start to see these sticker shocking higher prices across the board? Is it people trading into private label? Or are there sort of other areas where people might either trade up or down within your portfolio?

David A. Ciesinski

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

A

You look at our portfolio, things like soybean oil are going to be impacting everybody because of the formulas that people use, right? And if you look at other alternative oils, they're actually more expensive, not less. I would say the bigger question for us the way we're thinking about it is a question of elasticity. As those prices go up, how did the consumers – what do they do, right? And it could come as a result of trading down or trading out. All of that is baked into our volume assumptions and planning assumptions that we have. A better way of thinking, right?

Gregory Pendy

Analyst, Sidoti & Co. LLC

Q

Okay. That's helpful and then just one final one, just on the CapEx. Was there a shift from 4Q into next year in terms of your plans? You seem to come in a little light in CapEx on 4Q.

David A. Ciesinski

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

A

Yeah. That's correct. On the Horse Cave project, some of – the project is broadly on track, but some of the payments shifted into Q1.

Gregory Pendy

Analyst, Sidoti & Co. LLC

Q

Okay. That's helpful. Thanks a lot, guys.

David A. Ciesinski

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

A

Of course, sure. Thanks, Greg.

Operator: Your next question comes from the line of Ryan Bell with Consumer Edge Research.

David A. Ciesinski

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

Hi, Ryan.

A

Ryan Blaze Bell

Analyst, Consumer Edge Research LLC

All right. Good morning, everyone.

Q

David A. Ciesinski

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

Good morning.

A

Ryan Blaze Bell

Analyst, Consumer Edge Research LLC

Could you maybe discuss a little bit the decision to defer the implementation until of Project Ascent until the start of fiscal 2023? And maybe highlight what that means from a cost standpoint in terms of the implementation during 2022 and also what the impact might be in terms of the potential impact on cost savings.

Q

David A. Ciesinski

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

Maybe starting with the reason for deferring. And I think it's everything that you're seeing out there in the news today, Ryan. It's the amalgam of labor uncertainty and broad global supply chain uncertainty and then volatility and demand that's coming by way of our customers. One period, they're way up. And another period, they're backing off. And all of that that uncertainty and the fact that our Foodservice customers in particular, like a Chick-fil-A, rely on us in many cases exclusively. We felt that it wasn't prudent to lean in and hope that we could get that project to go live only to find ourselves in a set of circumstances where we couldn't supply our customers.

A

So really after some pretty extensive consultation with our customers and our internal team, we sat back and we looked at sort of where we are as a country and where we are in the food industry today. And we just felt like end-to-end, fiscal year 2022 is just probably too volatile for us to pick a window. I mean you look at where we are right now and how COVID – excuse me how the Delta variant is starting to impact the supply chain and you look at what's happening with other manufacturers in terms of labor. All of that creates just a pretty volatile mix.

And we're taking a view in our business that we want to win in the long term. We feel uniquely positioned with a strong P&L and a very strong balance sheet, a strong portfolio of customers. We want to make sure that we're leveraging all of those to set ourselves up for not just a good quarter, a couple of good quarters, but really multiple years of a successful run. So that's really what set up the decision for us just to look across the horizon and say when does it make sense for us to park this and to take that decision. So then with the benefit of that time, we said, okay, now what do we want to do and how do we want to use this time incrementally. And what we've elected to do is to put forward some of the enhancements that we would have been working on in subsequent periods and rework sort of the deployment schedule to make sure that we're making optimal use of this time.

And in other cases, honestly, we've taken people that were on the project. And as we've had short-term issues that have arisen in the business, it's allowed us to flex our own internal labor out into the business to manage

through some of the ups and downs and puts and takes that we're seeing every day. But I guess what I would want to convey to you is we remain absolutely committed to the importance of the initiative, and we feel like we are well positioned to put it place. But as an old boss told me one time, there's no long term without the short term. And we wanted to make sure that we didn't set ourselves in a position where we made a bad choice. We burned one or more of our customers and it really took us up off our growth trajectory.

As far as how we think about our algorithm in fiscal year 2022 and 2023, what I would share with you is there's just so much other volatility in the business right now that there are all sorts of other changes in the business that are eclipsing what we would have seen in terms of the modest savings in the early periods of this go-live. So does it differ some of those savings? Yes. Does it take them off the table long term? Absolutely not. It's still – it's a great project.

Ryan Blaze Bell*Analyst, Consumer Edge Research LLC*

Q

Thank you for that clarity. And then when we're looking at some of the Chick-fil-A trends in IRI, obviously, we're seeing really strong growth contributing significantly to continued year-over-year growth. When you're thinking about the overall distribution, at least from what we can see, it seems that the ACV has plateaued in the low 60s. Is that sort of what you're seeing? And then also, I mean, obviously, ACV doesn't tell the full story in terms of potential for new SKUs and further distribution across the shelf. What kind of opportunity do you see for the brand going forward?

David A. Ciesinski*President, Chief Executive Officer and Director, Lancaster Colony Corp.*

A

No. We feel pretty comfortable that we're achieving national distribution on this item. I guess I would want to crosscheck with you, the ACV number. Did you say – can you repeat for me the ACV number that you stated?

Ryan Blaze Bell*Analyst, Consumer Edge Research LLC*

Q

What I've seen is the ACV in the low 60s.

David A. Ciesinski*President, Chief Executive Officer and Director, Lancaster Colony Corp.*

A

Yeah. Our ACV is considerably higher than that. We have our ACV approaching at a national level. So I guess that would be one that I would want to go back. And maybe offline, we can cross tab with you on the ACV number. Having said all of that, we have full distribution across all the big guys, Walmart, Target, Kroger in all outlet, Albertsons, all of their various banners, Publix and then all of the other players nationally. And we'll see if we can pull up our ACV number while we're having the conversation. But June and then certainly through July, it was considerably higher than that.

Having said all of that, the velocity trends have exceeded our expectation. The trial and repeat rates have exceeded our expectations. And our retailers are thrilled and we're thrilled. So there continues to be a lot of opportunity for us to grow this platform. What we're starting to think about now, for example, if you look at other really big products on the shelf, Hidden Valley Ranch, Sweet Baby Ray's, Heinz Ketchup, all of those are selling in a considerably larger size or sizes than we are in our platform today.

So if you think about where do we go from here, it's going to be increasing the number of facings on the shelf to drive holding power. It's going to be upsizing so that we can get more into consumers' pantries and into their

refrigerators. And then also there remains an opportunity on the table for us to work with Chick-fil-A to go into other variants. Right now, we're constrained on capacity so we can't entertain those. But once Horse Cave comes online, it's going to present us with the opportunity for that sort of next leg of growth for this great platform.

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

Hey Ryan, I'm looking at the ACV, it's close to 80% in the latest four-week period. So it's probably improved since the last time you looked at it.

Ryan Blaze Bell*Analyst, Consumer Edge Research LLC*

Okay. Thanks for that clarification. And then in terms of the costs in the Foodservice side, I know you're saying there's a pass-through the costs. It's up and down. What kind of lag is there in terms of that? I know in the Retail business, obviously, you have to take a more active conversation in terms of pricing. There tends to be a bit of a lag there. So if you could talk about that, that'd be helpful.

David A. Ciesinski*President, Chief Executive Officer and Director, Lancaster Colony Corp.*

Tom, do you want to take that one? So the question was just the timing of the pricing and the lag.

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

So we'll take it in 2 parts. So in Foodservice, we generally price slightly behind the commodities. So particularly in this quarter, you saw we had negative PNOC in Foodservice, and we'll pick that up going forward. And then as we talked about in Retail, those pricing actions will be effective in the beginning of the second quarter. And so essentially, after we get past the first quarter, we expect to start to move to a more neutral PNOC going forward.

Ryan Blaze Bell*Analyst, Consumer Edge Research LLC*

Thanks. And then just the last one, the Bantam Bagels business. Have you found any luck in terms of signing new customers to replace demand from the Starbucks discontinuation?

David A. Ciesinski*President, Chief Executive Officer and Director, Lancaster Colony Corp.*

No, we have. We're continuing to bring online incremental foodservice customers but nobody at the scale of a Starbucks.

Ryan Blaze Bell*Analyst, Consumer Edge Research LLC*

Okay. Thank you.

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

David A. Ciesinski

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

Well, thank you, everybody. It was a pleasure to be here with you today. We look forward to joining you again in November when we share with you our first quarter results. But until then, have a great rest of the day and take care of yourselves.

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