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Lancaster Colony Corp. (LANC)

Q3 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Casey, 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 2021 Third Quarter Conference Call. Conducting today's call will be Dave Ciesinski, President and CEO; and Tom Pigott, CFO.

All lines have been placed on mute to prevent any background noise. After the speakers' remarks, after the speakers have completed their prepared remarks, there'll be a question-and-answer period. [Operator Instructions] Thank you. And now, we begin the conference call. Here's Dale Ganobsik, Vice President of Investor Relations and the Treasurer for Lancaster Colony Corporation. Please go ahead, sir.

Dale N. Ganobsik

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

Thank you, Casey. Good morning, everyone, and thank you for joining us today for Lancaster Colony's fiscal year 2021 third quarter conference call. Our discussion this morning may include forward-looking statements which are subject to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements are subject to a number of risks and uncertainties that could cause actual results to differ materially. And the company undertakes no obligation to update these statements based upon subsequent events.

A detailed discussion of these risks and uncertainties is contained in the company's filings with the SEC. Also note that the audio replay of this call will be archived and available 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 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 third quarter results for fiscal year 2021. I'd like to begin by extending a sincere thank you to the entire Lancaster Colony team for all their contributions and hard work during this past quarter. The record sales and strong financial results are a testament to our team's ability to adapt and deliver despite the 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 and our country's vital food supply chain. In our fiscal third quarter ended March 31, consolidated net sales grew 11.2% to a third quarter record \$357 million. Net sales in our retail segment grew 17.1% while net sales in our food service segment advanced 4.6%.

Excluding Omni Baking consolidated net sales increased 13% and Foodservice net sales grew 8.4%. Retail net sales benefited from higher demand as the impact of the pandemic helped increase at home food consumption. Our licensing program continued to grow and we advanced in our efforts to attract and retain new customers for our core brands. The growth was led by Chick-fil-A sauces, Olive Garden dressings and Buffalo Wild Wings sauces.

These products which we sell under exclusive license agreements accounted for nearly 13 percentage points of growth in our retail segment during our fiscal third quarter. Chick-fil-A sauces alone accounted for about 8 percentage points of growth in our retail segment. Our regional roll-out of Chick-fil-A sauces into the retail channel continued as planned during the quarter as we further expanded distribution into the south-eastern and south central United States, adding 11 more states from Texas to the mid-Atlantic.

Per IRI data, the velocity, buy rates and repeat rates for Chick-fil-A sauces continue to meet or exceed our expectations, and we remain very excited about the opportunities that lie ahead. With respect to our own brands, IRI data shows that we grew sales and increased market share in several of our key retail categories during the quarter.

Sales of Marzetti refrigerated salad dressings grew 9% and added 40 basis points of market share. New York Bakery frozen garlic bread grew 10.7% and gained 290 basis points of market share. Sister Schubert's frozen dinner rolls increased 7.6% and gained 10 basis points of market share. These results demonstrate the positive impact of our digital marketing programs that we have put in place to attract and retain new users.

As we emerge from the pandemic and our retail segment begins to lap the demands attributed to greater at-home consumption, we believe our portfolio of retail product offerings has us well-positioned for continued growth. In our food service segment, sales to national account, QSR and pizza chain customers remained a source of strength, representing over 60% of our total Foodservice sales in the third quarter.

NPD Crest data and our firsthand observations suggest that the increasing number of vaccinations and the economic stimulus programs are driving much higher demand for restaurants. Encouragingly this includes strong growth for many of the casual dining concepts in our mix of national account customers as well.

The base business for the QSR concepts we supply, continues to be robust and we are seeing a notable uptick in their limited time offer menu offerings. Our top tier culinary team and the collaborative approach we take with our customers to develop new menu items remains a key component of the growth and success of our food service segment.

Despite the higher manufacturing costs related to the impacts of COVID-19, our third quarter gross profit grew 17.7% to \$90.6 million. This was driven by double-digit sales growth and a more favorable sales mix. As with prior quarters, we continue to follow protocols and guidelines provided by government health authorities.

We also continue to make the necessary investments to promote safe operations at all of our plants and distribution centers. I'll now turn the call over to Tom Pigott, our CFO for his commentary on our third quarter financial results.

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. Third quarter consolidated net sales increased by 11.2% to \$357.2 million.

Excluding Omni Baking sales of \$5.3 million in the prior year quarter, consolidated net sales increased by 13%. Omni Baking sales were attributed to a temporary supply agreement. The supply agreement ended on October 31, 2020 as planned. Consolidated gross profit increased by \$13.6 million or 17.7% to \$90.6 million, the margins expanded by 140 basis points.

The growth was driven by higher sales volume in both segments. Gross profit growth also benefited from lapping of the prior year Foodservice finished goods inventory charge of \$4.5 million. In addition, we experienced approximately \$3.5 million in lower benefit costs in our cost of goods sold through the quarter.

These lower costs were driven by two factors. First, medical benefit costs were down by approximately \$2 million. This decline was driven by reduced claims during the period, as well as a more efficient medical benefits plan. We also made our revision to our vacation policy to make it consistent across facilities.

This change benefited gross profit by approximately \$1.5 million. We expect the vacation policy change will continue to provide about that level of favorability for each of the next three quarters and then costs will return to historical levels.

Partial offsets to gross profit growth for higher manufacturing costs including costs related to the impact of COVID-19 as well as the increased costs for outsourced production at co-manufacturers in commodity cost inflation. The COVID-19 related items included about \$3.5 million in frontline worker pay and other hard costs for shift separations, expenditures for personal protective equipment and sick leave expenses.

We also incurred staff costs totaling an estimated \$1 million. These costs were driven by increased demand and mix changes related to COVID-19. More specifically, these expenses included higher internal freight and distribution costs and utilization of some less efficient production lines to help meet demand.

For your reference, we incurred approximately \$1 million in COVID hard costs in the prior year quarter. Selling, general and administrative expenses increased. \$6.3 million or 13.3%, driven by higher, primarily by higher spending for Project Ascent. Consolidated operating income, increased by \$7.4 million or 24.7% to \$37.4 million.

The key driver of the operating income growth for the quarter was the strong top line performance and the resulting gross profit improvement. Our effective tax rate was 22.6% this quarter versus a tax rate of 27% in the third quarter of fiscal 2020. This quarter's rate benefited from an increase in our research and development tax credit. We estimate the tax credit, tax rate for the fourth quarter to be 24%.

Third quarter diluted earnings per share increased \$0.24 to a \$1.05. The increase was driven by the underlying performance of the business and a lower tax rate offset by the investment we're making in Project Ascent and lower interest income on our cash holdings. The Project Ascent investment reduced EPS growth by \$0.17 per share.

With regard to capital expenditures, first fiscal year-to-date payments for property additions totaled \$55.6 million. For our fiscal year ending June 30, we are forecasting total capital expenditures of \$110 million. This forecast includes spending related to the expansion project at our Horse Cave, Kentucky facility. This expansion will allow us to meet the fast growing demand for our dressings and sauce products.

The total costs for the expansion is estimated at approximately \$130 million with expenditures of \$30 million planned for this fiscal year. In addition to investing in our business, we also return funds to shareholders. Our quarterly cash dividend paid on March 31 was \$0.75 per share, a 7% increase from the prior-year amount. Our longstanding streak of the annual dividend increase has reached 58 years in December.

Even with the investments we are making and the increased dividend payments, our financial position remains very strong. As we finish the quarter debt free with \$211 million 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 for the long-term potential of the business. Now I'll 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. Number one, to accelerate our core business growth. Number two, to simplify our supply chain to reduce cost and grow our margins.

And number three, to identify and execute complementary M&A to grow our core. In our fiscal fourth quarter we expect to continue to drive net sales growth. As the country comes out of the pandemic, we anticipate a shift in our net sales mix from retail to food service.

Nonetheless, we expect our retail net sales will continue to benefit from growth in our licensing program. We are also making great progress with expanding distribution of Chick-fil-A sauces in the retail channel. And are pleased to share that last week we began shipping Chick-fil-A sauces to retail locations nationwide.

The impacts of COVID-19 will remain a headwind for our manufacturing cost in our fiscal fourth quarter while commodity costs are projected to remain on an upward trend. We expect our net price realization efforts and ongoing cost savings programs will help to offset these higher cost.

Specific to the price realization at this point, I can share that we've developed a plan to help offset inflationary costs for our retail segment through a combination of pricing and reduced trade spending. In the food service segment as most of you are aware, our contracts are tied to ingredient costs so increased commodity costs can be offset with inflationary pricing.

Also of note with the distribution of COVID vaccines now broadly available throughout the United States, we have notified our frontline team mates of our plans to discontinue the COVID related temporary wage increases at the end of our fiscal fourth quarter. Our ERP initiative Project Ascent is progressing with implementation planned for fiscal 2022. As we look ahead, I want to share with you some insight regarding our plans for the reporting of Project Ascent cost.

When we go live on the system in fiscal 2022, costs such as software maintenance and application management services will be reported as part of our base SG&A expenses, and no longer included as part of our Project Ascent cost. The cost attributed to our ERP implementation activities most notably the fees paid to third-party systems integrators and wages and benefits for our personnel assigned to the ERP implementation will continue to be specified as Project Ascent expenditures until the project is complete.

Moving on to our supply chain strategy, our significant investment in production capacity at our dressing and sauce facility in Horse Cave, Kentucky is moving forward as planned, with a target completion timeframe in the first quarter of fiscal 2023. We also broke ground on another expansion project for one of our facilities located in Columbus, Ohio.

This expansion will provide us with three new packaging lines to support growing demand for dressing and sauces in our Foodservice segment, and has a target completion date near the midpoint of fiscal 2022.

In closing, I would once again like to thank the entire Lancaster Colony team for all that they have done and continue to do to fulfill our mission despite all of the unprecedented challenges imposed by this pandemic. This concludes our prepared remarks for today. And we'd be happy to answer any questions that you might have. Casey?

QUESTION AND ANSWER SECTION

Operator: Great. Thank you. [Operator Instructions] Your first question here comes from the line of Todd Brooks from C.L. King & Associates. Please go ahead. Your line is now open.

Todd M. Brooks

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

Q

Hey. Good morning, everybody. Congratulations on the sales results in the quarter. It's just really great to see that type of acceleration. So congrats.

David A. Ciesinski

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

A

Well, thank you, Todd. We really appreciate it.

Todd M. Brooks

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

Q

A few questions for you. And one, I don't know if you're willing to do this for us or not but you can kind of dimensionalize what the move from regional to national over the course of this upcoming quarter should mean from an incremental revenue stream for Chick-fil-A on top of the good performance that you're seeing in the states that you're in.

David A. Ciesinski

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

A

Well, Todd, obviously it's going to depend on the timing of how fast the product gets on the shelf. So it's a little bit harder to estimate. What we can tell you is just in the most recent quarter if you look at IRI data, Chick-fil-A sauce was probably around \$15 million of net sales in the period. So if you think about it that's 10 states, one quarter and now it's going to be expanding throughout the remainder of the states.

So the hardest part to project here is just the timing within which it's going to get on those shelves. So it's a little bit difficult for us to do that. We can certainly tell you that we expect it to continue to grow and for the growth to be robust. But to try to call it closer then that's difficult.

We expect retailers like Kroger and Walmart and those with national reach to be calling at this point quite efficient at cutting it into the shelf. Some of the smaller players, what we found in the markets where we've had it out so far, it just takes a little bit longer but suffice it to say, to say it's going to be making an impact in the quarter and we're really excited about how it's performing.

Todd M. Brooks

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

Q

That's great. That's really helpful Dave. Thanks. And then just I know you talked about this with some of the some of the margin gives and takes going forward. But you talked last quarter about pulling back on trade promotions and advertising and it wasn't really an expense management move. It was more of a demand management move.

Are we still in that kind of state here in the third quarter and is that a longer term kind of chasing demand type of state that's allowing you to look at maybe repurposing some of those trade promos going forward?

Thomas K. Pigott

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

A

Sure Todd. So as you look at it sequentially there was not as big a trade back – pullback in Q3 as there was in Q2. We are starting to reinstate support to basically attract and retain the new users as we come out of the pandemic and so appropriately we're – we didn't see as much sequential quarterly improvement but we were favorable overall on trade versus the prior year.

Todd M. Brooks

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

Q

Okay. Great. Thanks Tom and then one final one for now, if we look at kind of gross margin outlook going forward the puts and takes you talked about inflationary pressures probably accelerating. But you also talked about your success with net price realization and the contract structure in retail allowing you to pass through. Do you have an outlook for incremental gross margin pressure in Q4 relative to what you saw in Q3?

Thomas K. Pigott

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

A

Yeah. I think we're expecting as Dave mentioned higher commodity costs as we go into Q4. On a full-year basis [indiscernible] (20:00) will be favorable. But in Q4, there may be some give back given the higher commodity pressures we're seeing. I think longer term, we do -- we do have the retail team has done a wonderful job of putting together a plan to help us offset the commodity inflation that we expect to see next fiscal year.

Todd M. Brooks

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

Q

Okay, great. [indiscernible] (20:21)

David A. Ciesinski

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

A

Todd, noting that we're going to continue to have the COVID related hero pay in there as well, the COVID card cost in this period also.

Todd M. Brooks

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

Q

Okay. Great. Thanks and congrats.

David A. Ciesinski

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

A

Thank you very much.

Thomas K. Pigott

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

A

Thank you, Todd.

Operator: Your next question comes from the line of Bill Newby from D.A. Davidson. Please go ahead. Your line is now open.

William Newby*Analyst, D. A. Davidson & Co.*

Q

Hey. Good morning and thanks for taking my questions and congrats again on the quarter.

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

A

Thank you, Bill. Nice to speak with you.

William Newby*Analyst, D. A. Davidson & Co.*

Q

Yeah. So Dave, I guess just first, you mind giving us the update on Foodservice customers kind of across your customer base. Now that we've kind of been lapping COVID for around a month now. Just I guess what you're seeing across that landscape there would be super helpful.

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

A

Yeah, absolutely. Happy to do that and share it with you, Bill. What I would tell you is really through probably, let's call it, the first half of March what we were seeing was what I would describe as a fundamental land recovery driven by an increase in vaccination rates. And it was sort of across the board.

And I would rather than talking about costs versus prior year, maybe just talk about the sales information and traffic, right? Because the comps start to get a little bit wonky. If you will look at really the sales and the traffic rates across all the segments, QSR, casual and midscale, they were all improving sequentially.

Once we get to mid-March, we seem to hit an inflection point, not just we here at Lancaster Colony but the entire food service space honestly. And we're hypothesizing that that was driven by these stimulus checks that dropped into people's pockets and all of a sudden the abundance of discretionary spending that they had because at that point we started to see a real uptick that was across the board, right?

You could see, there wasn't a material change in the fundamentals. There was a sequential improvement in vaccination. But there was a step change in an increase in traffic and sales. And it was at QSR, it was in casual and to a lesser degree even in midscale. We didn't see those sorts of moves in the non-com accounts as you might imagine, schools have reopened but it's a little bit mixed as you look across the countries. Universities are kind of in the same place. Stadiums and outdoor venues remain closed. So, this change, this step change really seemed to take place in mid-March.

And we're theorizing it was driven by the stimulus checks. And that has only recovered. So, if you were to sort of draw a graph and show it, you'll see sort of a smooth line increasing if you look at just and again NAV versus comps because it would be wonky, but you would see a line increasing to the right driven by these fundamental improvements.

Mid-March, boom, step change. And we've seen that trend only continue into early April, through April and now into early May. And what we're trying to understand inside and I think a lot of our partners and our supply chain and peers out in the industry are how long is this going to last. We expect that certainly this spike is transitory in nature and driven by stimulus. We expect there might be a little bit of a pullback off of these crazy comps and then a resumption of a smooth increase as we work our way out of the pandemic.

William Newby*Analyst, D. A. Davidson & Co.*

Q

Right. No, it's super helpful there, very detailed. And then I guess one more on Chick-fil-A. Super helpful if you guys, that if you could give us maybe a little bit of a compare and contrast as you have continued the rollout into new regions and I guess how the repeat rates and velocities that you're seeing in new regions compared to those same initial data points that you saw in the southeast in Florida.

I'm wondering how much variance there is. And as you roll into a new market if these new regions are going as successfully as those first – those first kind of more core [ph] display market fit (24:38).

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

A

Sure. The short answer is they're very consistent, and we're finding that they're actually consistent across customers as well. Like we were able to get more detailed data for Walmart and Kroger for example and we're seeing the performance is quite consistent.

And now mind you, that the data, certainly the panel data that we could look at things like repeat and buy rate is limited to the southeast region where we've been the longest. Right? We're not going to have that for the last week where we started to ship nationally. But if you look throughout the southeast and into areas in the mid-Atlantic, what we're noting is that the trial rate, the repeat rate, the velocities of the product, seem to remain quite consistent with some of the areas that we've had in the Southeast.

Now there's a novelty question that's hanging out there on this right? How long? We're still only in the case of the southeast about a quarter into the launch and the question is will it continue to run at these rates. But so far as we said in the script, its meeting and exceeding our expectations. We're carefully monitoring it.

We're obviously in active discussions with our retail partners and with Chick-fil-A. But it's where we thought it would be and the good news is we have the capacity in the supply chain where it needs to be just to provide for deliberate sequential growth and then we'll see how high is high on this.

William Newby*Analyst, D. A. Davidson & Co.*

Q

Right. No, that's super. And I guess just one more follow-up in terms of potentially layering on additional licensing agreements here. I mean we get the question a lot like what could be the next Buffalo or what could it be the next Chick-fil-A.

And I'm not sure you guys really need it with how Chick-fil-A is going but I mean can you guys even – do you have the capacity to entertain another agreement right now with how this ramp is going. I mean you're continuing to announce additional expansions presumably to satisfy this demand. I mean, I guess what is your capacity like to take on another licensing agreement with somebody?

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

A

You know in some respects Bill we view this like we would look at M&A. And I would tell you the way increasingly, we're thinking about is we have organic growth and we have inorganic growth. In many respects, this is another form of organic growth and we cultivated a pipeline of potential partners in the same way that you would in an M&A – in a traditional M&A sense.

And when it comes to taking on the next deal, we might think about it the same way as well. In many respects when we're ramping up to something as big as let's say Chick-fil-A sauce right now, obviously there's a lot of stress and strain on the supply chain as we make sure that we have the capacity in place to roll this thing out.

Really, it's no different than a merger and integration in many respects. In some areas particularly in terms of the startup, it's slightly more complicated. But what I can tell you is we have an active and ongoing pipeline of discussions with current license partners for where we can move horizontally under the categories that would be a fit for us.

And then, we're also looking at adding altogether new partners. I would tell you know, I feel safe in saying don't expect a big announcement Q4, we're going to come out another one because our plate is pretty full right now. Just making sure that we have the capacity online that we can safely operate our factories as we exit the pandemic. But as we move into next year and Chick-fil-A starts to really get in place in terms of distribution and Buffalo Wild Wings, we feel like things will open back up and we could be in a position to get aggressive again and look at traditional M&A for that matter.

William Newby

Analyst, D. A. Davidson & Co.

Appreciate all the color, Dave.

Operator: Your next question comes from the line of Ryan Bell from Consumer Edge Research. Please go ahead. Your line is now open.

Ryan Blaze Bell

Analyst, Consumer Edge Research LLC

Good morning, everyone.

Thomas K. Pigott

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

Good morning, Ryan.

Ryan Blaze Bell

Analyst, Consumer Edge Research LLC

Hi. I know, I know you don't provide guidance but could you maybe provide a bit more context about your expectations for fiscal 2022, the dynamics in the upcoming year, are they going to be a lot different than what we saw in fiscal 2021?

Food service this quarter came in pretty strong. From what we saw, it seems to bode pretty well for a strong recovery. And how should we think about the growth opportunity given the upcoming easier compares and also given the fact that national accounts actually performed reasonably well, all things considered during COVID? And so, to see how much room there is for growth in fiscal 2022 for the national accounts section versus the branded and other?

David A. Ciesinski

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

Sure. You know, Ryan, we haven't given guidance traditionally. And given the circumstances of all the complexities surrounding the pandemic, we certainly don't seem to believe this is the time to start. But maybe what we can do is just sort of provide you with a little insight on how we're thinking about the business on a go-forward basis.

So as you nicely pointed out, we expect to see that the first thing is reversal in terms of channels. Right? We expect to see pretty strong growth coming out of our foodservice business, as consumers return back to normal. And we expect to see some element of a pullback on our retail business for the very same reasons.

Now that the x factor that we have in that equation is that we do have a lot of new items that we've rolled out namely Chick-fil-A sauces that will be out on a national basis. And then Buffalo Wild Wings which we're going to be expanding as well. And if you think about it, this next year, fiscal year 2022 will be a full year for all intents and purposes of both of those products or pretty close to a full year.

That should give us a nice tailwind on the retail business. So what we expect to see happen generally is the ability to continue to post positive comps on our retail business despite this pullback. Now there'll be modest growth net-net but we expect to be able to post growth.

And then obviously given the softer comps in Foodservice, we expect to see some continued growth as well. So I think compared to others in the industry we feel fortunate in that our portfolio allows us to continue to deliver a sequential growth as we've sort of weathered the pandemic and now as we come out of the pandemic.

On the cost side of the ledger it's a most – a much harder sort of thing to call right now. As you've heard from some of the others on the call and I'm sure other companies that you're tracking Ryan, there are just a lot of crosswinds, that are out there right now. Right?

So first close to home for us, we have this shift in mix of the two channels as our foodservice business grows and our retail business pulls back that's a negative shift in mix. Now our retail business, given the new items will help [ph] buoy (31:50) that somewhat.

We expect to see significant inflation. I mean, we're looking at inflation that's clearly in the mid-single digits driven by soybean, corn, wheat, corrugate, flexible packaging as well as transportation that's going to be weighing on the period. Now to counter that another crosswind we have pricing activities.

We have pricing activities in Foodservice that are marked-to-market based on inflation. And then we have our own pricing intentions that are laid out, we've talked about here in the call.

For our retail business, we expect to see a bit of a boost coming from the fact that we did or we have announced that we're going to be stopping the hero payments going out to our teammates, that'll be after 14 months I believe that we had those in place. But now that the country is fully vaccinated, we feel like there's an opportunity to do that.

So, there's a mix of different things that are going on in this space but to sort of net it all out, we like where we stand. We see the opportunity for sequential growth. We think it's going to be healthy growth across both elements of our portfolio and we feel like there is inflation but we have plans in place to manage it, right?

So we're going to continue to work our playbook. And if you go back and look at it, we have a strong innovation process that we use to drive new items, whether it's with the licensing partner or core brand. We have a really,

really terrific commodity and risk management process that's been in place now about three years that gives us both visibility and the ability to hedge on increases.

We have a great operations management process that helps us manage our cost within our facilities and create fuel to invest back in the business or drop to the bottom line. And just an experienced leadership team that's really, we've talked a lot about the teammates, sort of writ large. I probably haven't talked enough about the leadership team here in the segments of Foodservice and Retail.

The supply chain team, the innovation team, strategy, just Tom and our CFO that have really bound together through this, to just help navigate the company through these times. So as you kind of look forward on the horizon and that's really where we're keeping our eyes fixed rather than just on the front of the ship per se, we like where we stand and we see the opportunity for sequential growth as we come out of the pandemic.

Period by period, we're going to have to wait and see how some of these things shake out but that's how we do it.

Ryan Blaze Bell

Analyst, Consumer Edge Research LLC

Q

Thanks. I appreciate the color. And I know you've answered a few questions so far in Chick-fil-A. But it's an important part of the story. If you're thinking about where your ACV is currently I mean we're seeing, I think it's somewhere in the 25% to 30% range, in the latest data. How should we think about the expansion and potentially a ceiling on where that can get over the next one to two years?

David A. Ciesinski

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

A

Well, obviously we would expect by the end of certainly 2022 to have it at 100% ACV. The question is just going to be then where are we going to get in terms of our TDP. Right? Do we start to think about moving into different sizes and things like that, so I'm assuming that when you're doing this, you're comparing our products versus other peers in the segment. Right?

We certainly are, we're using it as a means by which to triangulate and think about how big this can be for our planning purposes. And our goal is to get it out on every shelf and our retailers are very excited about it to cut that in. So, I think it's full speed ahead.

Ryan Blaze Bell

Analyst, Consumer Edge Research LLC

Q

Thanks. And I this is the last one for me. In terms of capital allocation, can you talk about your thinking about the M&A landscape right now? And then maybe what the opportunities might be over the near to medium term?

Thomas K. Pigott

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

A

Sure. I'll take that one, Ryan. So today, we're keenly focused on executing against the opportunities in front of us that Dave highlighted. We're also in the midst of our ERP implementation Project Ascent which is going well, and we expect it to go live in fiscal 2022 on that.

So in the near-term, we're monitoring, we're looking at things, but we're not as active as maybe we've been historically. Now going forward, we see post Project Ascent, we see the potential for us to look at maybe larger

transactions than we've looked at in the past. Given the potential, we could drive both top line growth as well as synergies once we're on the Project Ascent platform.

From what we're seeing today, we are seeing transactions go at very high multiples given some of the funds that are in the market and the growth is back. So we're going to be disciplined buyers as we change our stance going forward. So in the short-term, nothing, no immediate plans. Longer term we do see some potential there.

Ryan Blaze Bell

Analyst, Consumer Edge Research LLC

Q

Thanks. And as you're looking now to that point, is there a leverage ratio that you would feel comfortable with?

Thomas K. Pigott

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

A

So obviously we have a pristine balance sheet today. We don't – we honestly don't anticipate maintaining a conservative balance sheet going forward into the long-term but certainly, obviously capital allocation really depends a lot on the opportunities. And if we can drive good shareholder return on a transaction we feel very good about, we're certainly willing to take on some leverage. But overall, we continue to want to be under levered relative to our peers and maintain our conservative capital structure.

Ryan Blaze Bell

Analyst, Consumer Edge Research LLC

Q

Thanks. That's very helpful. Have a good one.

Thomas K. Pigott

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

A

Thank you.

David A. Ciesinski

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

A

Thanks Ryan.

Operator: Thank you. And as there are no further questions, we will now turn the call back over to Mr. Ciesinski for his concluding comments.

David A. Ciesinski

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

Thank you, Casey and thank you everyone for your participation this morning. We look forward to sharing our fourth quarter results with you in late-August. Have a great day.

Operator: And this concludes today's conference call. Thank you for your participation. You may now disconnect.

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