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Lancaster Colony Corp. (LANC)

Q3 2018 Earnings Call

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Frank Camma
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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Sharon 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 2018 Third Quarter Conference Call. Conducting today's call will be Dave Ciesinski, President and CEO; and Doug Fell, Vice President, Treasurer and CFO. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer period. [Operator Instructions] Thank you.

And now to begin the conference call, here is Dale Ganobsik, Director of Investor Relations for Lancaster Colony Corporation.

Dale N. Ganobsik
Director-Investor Relations, Lancaster Colony Corp.

Thank you, Sharon. Good morning, everyone, and thank you for joining us today for Lancaster Colony's fiscal 2018 third quarter conference call. Let me begin by reminding everyone that our discussion this morning may include forward-looking statements which are subject to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements are subject to a number of risks and uncertainties that could cause actual results to differ materially and the company undertakes no obligation to update these statements based upon subsequent events.

A detailed discussion of these risks and uncertainties is contained in the company's filings with the SEC. Also note that the audio replay of this call will be archived and available at the company's website, lancastercolony.com later this afternoon.

With that said, I'll now turn the call over to Lancaster Colony's President and CEO, Dave Ciesinski. Dave?

David A. Ciesinski

President and Chief Executive Officer, 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 2018. Doug and I will provide comments on the quarter and our outlook. Following that, we'll be happy to respond to any of your questions.

For the quarter, consolidated net sales increased 0.8% to $296.2 million versus $293.8 million last year. Retail net sales increased 0.2% to $152 million as continued growth in shelf-stable dressings, deli/bakery, frozen dinner rolls and the successful club test of Buffalo Wild Wings sauces were offset by the lingering impact of the supply disruption on garlic toast and lower sales for branded croutons and refrigerated dips. Given that Easter this year fell on April 1 and was only two weeks earlier than 2017, the year-over-year impact on the quarter was very modest.

Foodservice net sales grew 1.5% to $144.2 million driven by volume increases for frozen rolls and pasta and pricing actions that were implemented to help offset higher freight and commodity costs. Consolidated gross profit declined $4 million to $67.9 million due to the impact of significantly higher freight and commodity costs. Gross profit for the quarter was also weighed down by increased depreciation expense and two unusual non-recurring charges.

Savings realized from our lean six sigma and pricing were sequentially stronger, but only served to partially offset the aggregate cost increases in the quarter. SG&A expenses declined $2 million on reduced spending for consumer promotions and cost savings gained through the realignment and simplification of our retail broker network that was implemented in January.

Consolidated operating income increased from $22 million to $37.7 million. Excluding the pre-tax charge of $17.6 million in the prior year quarter, resulting from the company's withdrawal from an underfunded multiemployer pension plan, operating income declined $1.9 million or 5%. Based on the factors referenced above and excluding the multiemployer pension plan withdrawal charge, our consolidated operating margin decreased about 80 basis points. The Retail segment operating margin declined from 19.2% to 17.3% while the Foodservice segment operating margin improved from 9.6% to 9.9%.

Net income for the quarter was $27.6 million, or $1 per diluted share, compared to $14.5 million or $0.53 per diluted share last year. Note the lower tax rate of 27.4% in the current year reflects the favorable impact of the recent tax legislation. The aforementioned multiemployer pension plan withdrawal charge reduced the prior year's net income by approximately $11.5 million or $0.42 per diluted share. The regular quarterly cash dividend paid on March 30, 2018, was maintained at the higher amount of $0.60 per share set in November of 2017.

Turning our attention now to Retail sell-through data from IRI for the 13 weeks ending April 1, we maintained our leadership position in all six of our key categories. During the quarter, we were able to increase our share in three out of the six categories and we saw a modest pullback in the remainder due to our targeted trade reduction activities and the adverse impact of our supply disruption in the frozen garlic bread category.

With that, I'd like to now turn it over to Doug to make some comments on our balance sheet and other related items.

Douglas A. Fell

Vice President, Chief Financial Officer & Treasurer, Lancaster Colony Corp.

Thank you, Dave. Overall, our balance sheet remains strong and I will comment on some of the larger line items within our balance sheet compared to last year. From a high level perspective, the increase in our cash balances of nearly $44 million since June can be summarized as follows: cash provided by operating activities of nearly $117 million; offset by regular dividends of $48 million; treasury stock repurchases of $1 million; and property additions of $23 million.

In general and given our customer credit terms, the fluctuations in our accounts receivable balances often reflect the timing of shipments in the final month of each comparative period. The increase in the balance since June is in line with our expectations and consistent with past quarters, our collections and agings remain solid.

The increase in our inventory balances since June reflects higher commodity input cost, volume growth for our shelf-stable licensed dressings and sauces and an earlier pre-build of seasonal dip inventories for improved plant efficiencies.

As I mentioned, fiscal year-to-date cash expenditures for property additions totaled $23 million. This level of spend is in line with our estimated annual CapEx of $30 million for fiscal 2018. Consistent with our past communications, in addition to the new expansion project for our Angelic Bakehouse facility this year, the largest amounts have been spent on new processing and automation equipment to accommodate growth and enhance productivity.

Depreciation and amortization expense totaled $20 million for the first nine months, and we project this amount to be around $27 million for fiscal 2018. The increase in our accounts payable since June largely reflects an emphasis by our procurement team to extend payment terms with our vendors in conjunction with our lean six sigma efforts.

With respect to our balance sheet capitalization, not much has changed since our last commentary. We continue to have no debt, nearly $633 million in total shareholder's equity, and over $187 million in cash and equivalents. Borrowing capacity under our credit facility remains at nearly $150 million.

Finally, and broadly speaking, as reported in our second quarter earnings release, our income tax provision for fiscal 2018 was favorably impacted by the Tax Cuts and Jobs Act. Our blended effective tax rate for Q4 and fiscal 2018 is estimated to be 28.5%, yet our actual tax rate for Q3 was 27.4%. The favorable difference of 110 basis points for Q3 is largely due to two discrete items of roughly equal size. First, the continued refinement of the estimated impact of the Tax Act on our deferred taxes; and second, the current year treatment of the favorable tax impact relating to stock option exercises within our tax provision, as further discussed in the footnotes to our previously filed financial statements. While these items may recur in Q4 as well, due to their nature it is not possible to estimate their exact impact. Looking forward, at this time, we continue to estimate our effective tax rate for fiscal 2019 to be approximately 24%.

Thanks for your participation with us this morning. I will now turn the call back over to Dave for concluding comments. Dave?

David A. Ciesinski

President and Chief Executive Officer, Lancaster Colony Corp.

Thanks, Doug. Looking ahead, I'd like to update you on a few key strategic topics that are relevant to the remainder of our fiscal year. First, during the third quarter, we fully implemented the corrective actions on our frozen garlic bread business, and we are now supplying the business at normal levels. We do not expect further supply disruptions.

Second, both commodity and freight costs remain at elevated levels. For the third quarter, commodity inflation, net of sourcing activities, approximated 1% of consolidated net sales, and elevated freight costs represented just a little bit less than 1%. We expect both commodities and freight to remain at comparatively elevated levels throughout the remainder of Q4.

Third, early in our fiscal third quarter, we implemented selective price increases in both Retail and Foodservice segments in response to these higher commodity and freight costs. To date, we have been successful at passing through the price increases in our Foodservice segment. In our Retail segment, some work remains to fully achieve the net pricing.

Fourth, we will continue to generate cost savings from our lean six sigma program at or above the mid-7 figure level that we've achieved each quarter through the previous three quarters of this fiscal year. Finally, on the sales volume front, we're excited to announce we began shipping the new Parmesan Ranch flavor as an addition to our retail segment line of [ph] Olive Garden dressing (11:14). We expect this item to be in nearly full distribution by the middle of the summer.

That concludes our prepared remarks for today, and we'd be happy to answer any of your questions. Sharon, over to you.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And your first question comes from Brian Holland from Consumer Edge Research.

Brian P. Holland
Analyst, Consumer Edge Research LLC

Q

Thank you.

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

A

Good morning, Brian.

Brian P. Holland
Analyst, Consumer Edge Research LLC

Q

Can you quantify – good morning. Can you quantify how much you think frozen bread impacted retail sales in the quarter?

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

A

Let's see. You know, I would say it's a seven figure number, lower seven figure number is probably what I would estimate for you, Brian.

Brian P. Holland
Analyst, Consumer Edge Research LLC

Q

Okay. Looking at SG&A that came in lower than I was forecasting in the quarter. Certainly appreciate that consumer promotion can be a little more volatile quarter to quarter. But curious how we should think about that line going forward and specifically, can we expect similar amounts of SG&A leverage over the next three quarters as a result of this retail broker network realignment or if that's just a one-quarter benefit, how we think about that?

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

I would say, if you were to look at it, there were the two drivers. One was a sort of an intentional pullback on the timing of some of the consumer promotional work, and that was mainly around the New York frozen as we were having supply constraints. As you might expect, we pulled back on advertising because there was no benefit exacerbating that problem. But the other piece is in fact this broker realignment. The bigger component of that being the pullback on the consumer work for New York, but there is a piece – a smaller piece, that's going to be part of that on ongoing basis.

Brian P. Holland
Analyst, Consumer Edge Research LLC
Q

Okay. Got it. Looking at the pricing and trade spend in Retail, it sounds to me, and correct me if I'm wrong, that perhaps trade spend in Retail was a bigger offset to price than maybe you anticipated. I know you referenced pushing more pricing through, but just curious how you would describe sort of your customers' appetite for such action in this backdrop? And then what are the key learnings from this first wave of pricing you took that are applicable going forward here?

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

Sure. Maybe what I'll do, Brian, if you allow me is to take a half a step back and talk about in the context of Foodservice first. So, as we've shared with you in the past, with our agreements, with our big national account customers and even with distributors, we have mark-to-market provisions in those contracts, and as we've seen cost elevate, we've been very diligent about quantifying the impact and passing those along to the Foodservice customers. And today, we've been able to achieve that and you can see it manifest in the results.

On the Retail side, I think it's essentially exactly what you have described. In some cases, we've had price increases that have gone through. But given the seasonal nature of some of the products, we protected events where we had made prior commitments, so that deferred the realization.

But I would speak more broadly to the fact that it remains quite a challenging environment from a pricing perspective. You folks on the phone probably seen the article in [ph] New Journal (14:33) today talking about what CPG is going through, and we're not immune from those same discussions. But as I shared with you guys in the call in the last quarter, this is an area where we've taken a very direct stand with our retailers and we continue to push. And I think for the whole industry, there's a benefit here to continue to try to push.

Brian P. Holland
Analyst, Consumer Edge Research LLC
Q

Thanks for that. I'll get out of here with this one. I know you called out licensed products is a catalyst in retail's quarter. I suspect Buffalo Wild Wings is still fairly a small piece, but we would be great to get an update on how that's performing and also any color on when or how that might scale as I believe as you've indicated so far that's just clubs so far? And I'll leave it there.

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

Sure. Yeah. Yeah. No. Thank you for asking. So hopefully you guys had a chance to see it in Costco's in BJ's as well and I would tell you, it performed exceptionally well. It exceeded our threshold. It exceeded by several folds the club channels thresholds and BWW was quite excited about it as well. So, the test is going to continue through the month of March. We have a little bit more to go and more actively in discussions with our partner, BWW about where we go from here. So, these are – it's an exciting product. It performed very, very well, and it's one we're excited about for a couple of reasons. One, it's a great casing product. It's – but the other thing is it opens up optionality for us in a whole range of new categories where we feel like we have unique products, unique capabilities and the Buffalo Wild Wings brand is just a tremendous accolade.

Operator: Next question comes from Michael Gallo with C.L. King.

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

Good morning, Michael.

Douglas A. Fell
Vice President, Chief Financial Officer & Treasurer, Lancaster Colony Corp.
A

Good morning, Mike.

Michael W. Gallo
Analyst, C.L. King & Associates, Inc.
Q

Hi. Just continuing – good morning. Just kind of continuing along the drivers as you kind of get through the New York Bakery supply constraints. It would seem that you have a number of products – product categories that could be significant sales drivers between Olive Garden Ranch, Buffalo Wild Wings, as well as I think you've talked about expanding your presence within the dip category. So, with that behind you, can you talk a little bit more about what we should expect in terms of retail growth acceleration? Thank you.

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

Sure. Historically, what we've shared with you guys is low-single digit growth, and that really remains the same with obviously one of the X factors being where things net out from a pricing perspective. If we're able to – Mike, it's little stronger price realization. Maybe it's at the higher end of that; if we're challenged on the price realization, maybe at the slightly lower end.

And we are – we're quite excited about the products that you laid out. Not to say that we don't have a couple of areas of the business that have small challenges. If you look at the crouton category, albeit small, it's one that's – it's been impacted more aggressively by private label than others. But I think as you're thinking about the algorithm, that continues to be our view today.

Michael W. Gallo
Analyst, C.L. King & Associates, Inc.
Q

Okay. Great. And then just in terms of the gross margins in the quarter, I know there was a lot of noise between commodities, freight, New York Bakery, as well as your shift of -you had a probably a higher level of Foodservice revenue that you have. So as we sort of think about the pricing actions that you already have coming in, which sounds like it should result in better price realization, better sales presumably from New York Bakery, and then some of your cost in six sigma initiatives. I guess when can we expect the gross profit will begin to trend up on a year-over-year basis? Thanks.

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

Sure. So we'll step back and maybe frame it first in the context of input cost and what we saw in the most recent quarter and what the outlook is a little bit farther out, maybe jump into pricing to allow you to put the whole thing together.

I'd start by saying, on the input cost side, you heard in the comments earlier. I think what we described is that our aggregate commodity inflation net of sourcing activities was about 1% of our consolidated net sales. So you guys can do that math. And we said if you looked at freight, inbound and outbound together, it was also about 1 point.

So you could see those were both quite sizable numbers and again they were net of sourcing initiatives. If you take out freight and you look at the commodity side, we've reached sort of a place where we feel like we're running pretty close to neutral peanuts. So pricing and other activities are net of those commodities, we're able to hold those off. The newer news that's come on is the freight inflation and the rate at which that's hit us. That's been probably, if I was to describe it simply, the bigger offset that we've hit.

Now how do we think about all of these on a go forward basis, Mike, and this is again I'm going to double click on the cost side. Our view on commodities is we're going to continue to see inflation but we expect the rate of inflation beyond Q4 into Q1 and into the next fiscal year to be slightly less aggressive or more modest than we've seen to-date, but that's our view today and that could change, right. That's one egg issue, avian influenza away from changing the dynamic. But our view is that beyond Q4, you should start to see inflation gradually start to moderate.

The other thing that we're seeing is now that was commodities if you look at freight, essentially as we went from – I guess it was Q2, we saw a step-change in freight costs because of the hurricanes and then a subsequent step change when we reported in January because of the new – the electronic logs, right?

And what we are seeing there is they remain at elevated levels but they are not going up. So, we sort of are in a situation where the structural imbalance between the demand for loads or demand for trucks and the supply, but there were not seen it continued to run up.

So as you sort of look beyond, what I would expect to see is certainly – I guess I'll look at Doug here, on the fly, I would say certainly by Q2 we should start to lap the worse of the freight inflation notwithstanding some other event.

Douglas A. Fell
Vice President, Chief Financial Officer & Treasurer, Lancaster Colony Corp.
A

That's our expectation sitting here today.

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

And on the commodity side, Mike, what I would say is I would expect to see those start to moderate a little bit notwithstanding some other event that destabilizes things. Now, move beyond that, our pricing, trade activities and everything at six sigma remain in place. So I would expect that – you're going to begin to see improvement from this point on, but you're going to see some bigger increases as we start to lap the increases in freight that set us back a little bit.

Michael W. Gallo
Analyst, C.L. King & Associates, Inc.

Q

Okay. Helpful context. Thank you.

Operator: Next question comes from Brett Hundley with Vertical Group.

Brett Hundley
Analyst, Vertical Trading Group LLC

Q

Hey. Good morning, guys. Hope you're doing well.

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

A

Good morning, Brett.

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

A

Hi, Brett.

Brett Hundley
Analyst, Vertical Trading Group LLC

Q

I wanted to go back to the Retail segment growth algorithm discussion. So, if I take the answer that you gave to Brian about the garlic bread headwind, low seven figure number, that creates about a 1% headwind on Retail by my math. So that would put – ex that, that that would put you plus 1% for the quarter Retail segment growth. If I go back to fiscal Q2, the commentary that you guys gave at the time was that you were about a plus 1% in that quarter, ex some of the one-time issues that crept up and hit you during that quarter.

So similar type growth quarter-to-quarter Q2 to Q3, you had an easier comparison in Q3. And so, I'm just curious if the implied sequential drop there just based on the comp is due to some of the trade spend that you have in – had in place or if you could expand on that a little bit?

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

A

Yeah. I think, Brett, the short answer is you nailed it. That's exactly right. It was driven by that – the incremental trade spend in the period against that price – the price increases that went in place.

Brett Hundley
Analyst, Vertical Trading Group LLC

Q

Okay. Okay. And so as a follow-on to that, because I'm also trying to marry that with – I'm trying to marry that dynamic with the other comment that you made on expectations of low-single digit growth for Retail going forward with that X factor kind of being that price realization because as I think about my model, my expectation with some innovation that you have coming online would be that – from that kind of 1% base growth level that we could see that pick up in quarters ahead.

So when you talk about low-single digits, it might be 1% here in recent quarters, but my expectation would be that that could tick-up a little bit, but then you have this discussion on net price realization and trade.

And I don't want you to give away your hand on this call, but my question I guess is when I think about net price realization going forward and I think about the comments that you've made on trade and the trade that's been in place, can you just give us some type of way of the land as it stands now on trade not necessarily by month or quarter, but just related to forward lumpiness within that umbrella of your overall efforts to get net pricing higher in future periods. Can you just give us some guidance on that so that we can try and model your Retail segment growth?

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

A

Sure. Sure. You know what I would say, Brett, is we continue to believe that there are opportunities to optimize our trade spending. So we're working two different levers. There's the list price lever which we're continuing to pursue like other peers in the CPG space and we're making headway in some places and other areas that it's a more tenuous process. That dynamic of price increases going out from quarter to quarter can create some lumpiness on trade spending because part of the negotiation with a retailer might be to protect some of the events for a period of time, and that's part of the dynamic.

No, if you move beyond that sort of period to period dynamic with less price increases and some trade offsets to protect event, and you study just then you say, look at our trade on [indiscernible] (26:45) our gross sales. That remains an opportunity for us to optimize that as well. We've invested in tools, we've invested in capabilities, we have some great folks here and we continue to believe that there's an opportunity there to drive some improvement.

Brett Hundley
Analyst, Vertical Trading Group LLC

Q

Okay. If I can ask you about the current quarter then where you should have some better visibility, do you feel like Retail segment growth can at least pick up from kind of a 1% run rate improvement level?

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

A

We do.

Brett Hundley
Analyst, Vertical Trading Group LLC

Q

Okay.

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

A

You know what I would tell you – and what I would point to is laddering back to one of the other questions, just the strength of our pipeline. We have a couple of pretty exciting items that are in there and some others that we're not sharing with you that continue to make us bullish.

We didn't mention in the earlier commentary about Flatout and Angelic, and both of those businesses are coming on line and doing a nice job as well. So, for those reasons, we're cautiously optimistic about our ability to continue to provide organic growth.

Brett Hundley
Analyst, Vertical Trading Group LLC
Q

Okay. And then, I just have two other questions, probably one for each of you. Dave, just on the network optimization point that you put in the press release, are you fast-tracking any longer-term projects in this sense – is there anything that you're kind of pulling forward that you feel like you have the ability to improve margins more quickly than you had originally anticipated?

And then, Doug, I feel like I ask you this every quarter, but back on the balance sheet, as it relates to your cash pile, in previous years, there had been a point where you had gotten to a certain level, usually around $200 million in cash and ex-M&A, you would look to pay out a special dividend. I think that thinking has changed a little bit. You can correct me if I'm wrong. But is there a certain number or a certain length of time ex-M&A that we should think about where this management team starts to put this money to work in other ways? Thank you.

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

So maybe I'll take the – why don't you go ahead. Doug, you want to jump into that one?

Douglas A. Fell
Vice President, Chief Financial Officer & Treasurer, Lancaster Colony Corp.
A

That's perfectly fine. Brett to your question, as we convey to you in the past certainly it is our first desire to invest back into the business, the excess cash that we have available. And then certainly following that as any M&A opportunities that they come up and as we've all talked about multiples are a bit higher right now, but that doesn't dampen our enthusiasm or our activities in that area. And then certainly, we've been increasing our cash dividends over the past 55 years. So, that will most likely continue.

And then to your point, once we have exhausted all other opportunities, we certainly would towards that special dividend, but nothing has been talked about at this point in time and so I would just convey to you that this status quo at the point more come on that as we get into the future quarters, but nothing to report again today.

Brett Hundley
Analyst, Vertical Trading Group LLC
Q

Great.

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

So Brett swinging around to your first question then on the view of the network and some bigger structural investments that would drive sort of a step change in our cost structure. We are – we continue to aggressively evaluate those opportunities. We've met with our board to talk about a few of those. We're meeting with our board again in our next meeting to go over some others and we look forward to having some things to share with you probably as we move into the next fiscal year.

So consistent with what we've said before, what we're continuing to drive every day in the business is really the operational improvements that are coming out of lean six sigma where we're improving our yield, reducing waste and all that sort of stuff. And that's really what's driving that mid-seven figure per quarter improvement on costs.

The sort of tranche of activities that we're looking at over a longer period of time would require us to invest in sort of bigger levels of automation and some other ideas that we have. We've identified them. We're working with our board. And just a little bit premature to share it with you guys our thinking right now, but I'd say stay tuned. We look forward to sharing some of that with you.

Brett Hundley
Analyst, Vertical Trading Group LLC
Q

Thanks so much.

Operator: [Operator Instructions] Your next question comes from Ray (sic) [Frank] (41:55) Camma with Sidoti.

Frank Camma
Analyst, Sidoti & Co. LLC
Q

Guys, good morning. Thanks for taking the call.

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

Good morning, Frank.

Douglas A. Fell
Vice President, Chief Financial Officer & Treasurer, Lancaster Colony Corp.
A

Good morning, Frank.

Frank Camma
Analyst, Sidoti & Co. LLC
Q

Good. Hey, you mentioned the CapEx, I believe, Doug. Did you say $30 million for the year? Is that correct?

Douglas A. Fell
Vice President, Chief Financial Officer & Treasurer, Lancaster Colony Corp.
A

That is correct, Frank.

Frank Camma
Analyst, Sidoti & Co. LLC
Q

Okay. And a good portion of that sounds like for the Angelic capacity. So I was wondering if you could just – what is that – did you mention, I might have missed that part, I'm sorry.

Douglas A. Fell
Vice President, Chief Financial Officer & Treasurer, Lancaster Colony Corp.
A

I guess one has to define a good portion. But I will convey to you that while it was probably the largest piece of the CapEx today, I would be quick to point out, we've invested a good amount in capacity and automation.

Frank Camma
Analyst, Sidoti & Co. LLC
Q

Okay. Now, what I'm getting at is, it sounds like Angelic is pretty much – is it fair to say, running at least in line with your expectations or, if not, better. Is that a fair statement?

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

Yeah. I would jump in and say, Frank, it is. The projects have been completed on time. We went out with a number of different objectives that we've hit on time. The new capacity that we invested in is coming online. We were achieving a number of new wins for new distribution on the items. So we feel free to...

Frank Camma
Analyst, Sidoti & Co. LLC
Q

Are there a lot more doors that you can go in with that line in particular?

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

Yes. Absolutely.

Frank Camma
Analyst, Sidoti & Co. LLC
Q

Okay. Good. And second point, my only other question...

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

And, Frank, I would qualify that and say more doors but also over a longer period of time potentially even more categories.

Frank Camma
Analyst, Sidoti & Co. LLC
Q

Right. Oh! Okay. That's helpful. My other question is just on the press release, on the Foodservice side, and I'm sorry if I missed this on the call. But you mentioned volume increases for frozen yeast rolls and pasta. Can you just give us a sense? I don't recall like what percentage – not necessarily a percentage of your sale but just relative size of the bread and pasta versus the sauces in Foodservice?

Douglas A. Fell
Vice President, Chief Financial Officer & Treasurer, Lancaster Colony Corp.
A

Well, we – I don't think we've given those exact percentages in the past, Frank. But I would just convey to you that the dressings and sauces is a far larger category to the Foodservice business.

Frank Camma
Analyst, Sidoti & Co. LLC
Q

Right. Okay. Okay. I was just trying to figure out is that just driven from demand from your customers, like were they doing promotional activity or why would that necessarily – like that component go up versus sauces? I guess that's where I was going with that.

Douglas A. Fell
Vice President, Chief Financial Officer & Treasurer, Lancaster Colony Corp.
A

Sure. I think a part of it was driven by some promotional activities by some of our customers. That was certainly a piece of it.

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

And then the other piece is, Frank, the Sister Schubert Rolls that we're selling into different foodservice partners that are used in sliders. Some of them are becoming core menu items and some, as Doug had pointed out, are also LTOs and they're just performing exceptionally well for us and for those partners.

It's a part of the business we expect to continue to grow and become more meaningful in time. On the positive side, you're familiar with the fact that we do have rings, noodles and small pasta business and we levered the same assets to do some work with, some foodservice partners.

Frank Camma
Analyst, Sidoti & Co. LLC
Q

Okay. That's helpful. Thanks, guys.

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

Absolutely.

Operator: [Operator Instructions] If there are no further questions, we will now turn the call back over to Mr. Ciesinski for his concluding remarks.

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

Thanks Sharon. And, well, thank you to everybody on the phone for joining us today. We look forward to talking with you in August when we share our fourth quarter results. Have a great rest of the day.

Operator: This concludes today's conference call. You may now disconnect.