05-May-2022

Lancaster Colony Corp. (LANC)

Q3 2022 Earnings Call

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OTHER PARTICIPANTS

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Ryan Blaze Bell
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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Josh and I will be your conference call facilitator today. At this time, I would like to welcome everyone to the Lancaster Colony Corporation's Fiscal Year 2022 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 have completed their prepared remarks, there will be a question-and-answer period. [Operator Instructions] Thank you.

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

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 2022 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 the business update and highlights for the quarter. Tom Pigott, our CFO, will then provide an overview of the financial results. Dave will then share some comments regarding our current strategy and outlook. At the conclusion of our prepared remarks, we'll be happy to respond to any of your questions.

Once again, we appreciate your participation this morning. I'll now turn the call over to Lancaster Colony's President and CEO, Dave Ciesinski. Dave?

David A. Ciesinski

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

Thanks, Dale, and good morning. It's a pleasure to be with you today. In our fiscal third quarter ended March 31st, consolidated net sales grew 12.9% to a record $403 million with Retail net sales up 7.4% and Foodservice net sales up 19.8%. Net sales growth in the Retail segment was driven by pricing across the portfolio, continued volume gains for our licensing program and strong sales for our Sister Schubert (sic) [Schubert's] (00:02:53) dinner rolls, the 7.4% net sales growth in Retail compares to a robust sales gains of 17.1% in last year's third quarter.

Retail sales volume, measured in pounds, declined 2%, but comps to strong volume growth of over 12% in the prior year quarter and moreover reflects the decision to exit select noncore products. Excluding these rationalizations, our third quarter Retail net sales volume grew 5%. Notably, our licensing program continued to perform well in the period, led by distribution gains for Buffalo Wild Wings sauces and Chick-fil-A sauces. In the aggregate, these two licensed sauces combined to account for over 8 percentage points of Retail net sales growth.

For the quarter, we were pleased with our overall share performance. IRI data showed share gains for our Sister Schubert (sic) [Schubert's] (00:03:56) dinner rolls were up 200 basis points to a share of 51.5% and our Marzetti brand refrigerated dressings were up 90 basis points to a share of 23.3%. On a two-year stack basis for the quarter, IRI Retail scanner data shows several of our branded products continued to perform well, with double-digit sales growth and market share gains reported for Sister Schubert's frozen dinner rolls, New York Bakery frozen garlic bread, New York Bakery croutons, and Marzetti refrigerated dressings.

On the same two-year stack basis for the quarter, sales at Retail for our licensed sauce platform has more than tripled, growing from $29 million to $89 million. But as I will discuss later in my comments, achieving this rapid growth in licensed sauces has resulted in incremental co-manufacturing cost and margin pressure.

In summary, our Retail top-line performance in the quarter was driven by our pricing actions, volume growth from our licensing program and strong store-level execution. In our Foodservice segment, net sales growth of nearly 20% was driven by inflationary pricing and increased demand for our branded products. Total Foodservice volume measured in pounds decreased 2% as influenced by industry-wide operator challenges due to a tight labor market and a weakening consumer environment.

Turning to our margin performance, our gross margin declined in the third quarter reflects unprecedented inflation of nearly 30% for raw materials, packaging and freight. Costs for all three categories increased sequentially in the quarter, pacing well ahead of our previous expectations. While we pass along incremental pricing in the period, the net impact of our pricing actions lag these extraordinary levels of inflation. Our margin results were also adversely impacted by higher labor costs, supply chain disruptions and continued volatility in Foodservice customer demand. Finally, as stated above, our lower margins in Retail also reflect an increased reliance on co-manufacturers to help satisfy rapid growth for our bottled sauces.

As we outlined last quarter, we continue to pursue a focused list of discrete actions that will enable us to reduce our cost and improve our margin profile. First, during the quarter, we completed construction and startup for our

sauce capacity expansion project at one of our Columbus-based facilities and expect the benefits of improved operating efficiencies and reduced costs for that facility to begin this quarter ending June 30.

Second, during the quarter, we also opened our new Columbus-based warehouse location. The site is now fully operational and delivering the intended benefits of reducing both our material handling cost and our need for third-party warehouses.

Third, we continue to optimize our use to co-manufacturers by increasing the use of our internal manufacturing facilities where our capacity situation allowed. While we made progress, most of these savings will not be realized until next fiscal year when the construction of our Horse Cave facility is complete and we've gone live on the first few waves of SAP.

Our fourth key initiative is revenue growth management. Given the magnitude and the rate of inflation that our business is experiencing, pricing remains our single most important lever. During the quarter, our Retail segment implemented an additional round of pricing on frozen bread and pasta products that became effective in late April. Given the continued run up on edible oils and other broad-based sources of inflation, we'll soon be pursuing another round of pricing actions on our dressings, sauces and dips categories.

In our Foodservice segment where pricing is tied to contracts for commodity and freight inflation, we implemented an additional round of pricing in the quarter as well. Like our peers, we also continue to carefully monitor the impact of inflation on our Retail consumers and our Foodservice customers. To-date, their behavior has not materially changed. When and if it does, there are other revenue management tactics that we can deploy.

Finally, given the magnitude, rate and broad ranging nature of inflation, we're aggressively activating supply chain productivity and product value engineering projects. These projects will further reduce our cost and improve our margin profile over the long term.

Before I turn it over to Tom, I'd also briefly like to comment on our decision to exit Bantam Bagels. Early during the pandemic, the Foodservice industry was severely impacted by store closures and traffic declines. During this period, numerous restaurant operators made choices to streamline their menus for operating efficiencies. And during this period, Bantam Bagels was discontinued at their largest customer for precisely this reason. This discontinuation and the sustained impact of the pandemic changed the economics of the business.

Despite investments to support the growth of Bantam Bagels in the Retail segment and our best efforts to replace the loss of the major customer in the Foodservice segment, we were unable to identify a credible pathway to profitability for the business. Consequently, we made the prudent but difficult decision to exit the business.

I'll now turn the call over to Tom Pigott, [ph] our CFO (00:09:55), 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 reflected strong top line performance offset by higher costs resulting from significant inflationary impacts and supply chain challenges. Third quarter consolidated net sales increased by 12.9% to $403.5 million. This growth was driven by pricing actions taken in both segments. Consolidated gross profit decreased by $22.2 million to $68.3 million. Gross margins declined by 840 basis points.

The key drivers of the gross profit decline were the higher commodity inflation that outpaced pricing and increased supply chain costs. Inflation for commodities and packaging materials was up nearly 30%. The majority of the commodities we utilized were priced at or near 10-year highs. Our significant exposure to dressings and by extension, soybean oil, which was up notably drove our inflationary impact higher than many of our peers. The soybean oil increase drove approximately half of our commodity cost inflation. This quarter, we also experienced a sequential increase in our freight costs.

As it relates to pricing, we continue to execute against our revenue growth management program. As Dave highlighted, further revenue growth management activities are planned in the coming months to recover higher costs on soybean oil, eggs, and other commodities, in addition to the inflationary costs for freight and labor.

The increase in supply chain costs during the quarter resulted from a number of factors. First, we experienced a high level of inflation in our factory, labor, and other manufacturing costs. The labor inflation was driven by our decision to raise wages to ensure we had adequate staffing to serve our customers in this tight labor market.

Second, our manufacturing costs were up due to operating challenges in this environment. We experienced lower overhead absorption in some of our facilities, costs for incremental personnel, and other additional costs to support our customers. Our cost savings program has been hampered by efforts to react to the impacts of external demand and supply volatility at our facilities.

Third, we had higher freight and warehousing costs due to wage and fuel inflation and higher levels of inventories we built to improve service. Last, our co-manufacturing costs were up as we outsource more production to meet our growing demand for bottled sauces.

As Dave highlighted, we're taking several actions to address these increases and improve our operations. Selling, general and administrative expenses increased 2.6% or $1.4 million. This increase was driven by a higher level of investment to support the continued growth of our business. These investments included higher brokerage costs attributed to the increased sales and IT infrastructure improvements. Expenditures for Project Ascent, our ERP initiatives, totaled $10.3 million in the current-year quarter versus $10.8 million in the prior year quarter.

The company recorded two special items this quarter related to the Bantam Bagels business. First, we recorded a noncash restructuring and impairment charge of $22.7 million. Impairment testing was triggered by our decision to explore strategic alternatives for this business. Due to its unusual nature, the restructuring and impairment charge was not allocated to our two reportable segments.

Second, we revalued the contingent consideration liability using fair value accounting. Based on that analysis, we reduced the current value of the projected payout by creating the income you see on the contingent consideration line of the P&L. We recorded this adjustment to our Foodservice segment. Consolidated operating income declined $45 million to a loss of $7.6 million due to the charges related to the Bantam Bagels business and the inflationary impacts and supply chain challenges I described.

Third quarter diluted earnings per share decreased $1.22 to a loss of $0.17. The decrease was driven by the operating income decline. The EPS impact of the restructuring and impairment was $0.63 per share. And the benefit for the change of contingent consideration was $0.04 per share. Costs related to Project Ascent reduced EPS by $0.29 per share this quarter versus $0.30 in the prior year quarter. We estimate our tax rate for the fiscal fourth quarter to be 23%.

With regard to capital expenditures, year-to-date, property additions totaled $104.9 million. For the fiscal year we are forecasting capital expenditures of approximately $150 million. This forecast includes approximately $90 million for the Horse Cave expansion project that will help meet the increasing demand for our dressings and sauce products.

In addition to investing in our business, we also returned funds to shareholders. Our quarterly cash dividend of $0.80 per share, paid on March 31, represented a 7% increase from the prior year amount. Our enduring streak of annual dividend increases currently stands at 59 years. Our financial position remained strong as we finished the quarter debt-free with $67 million of cash on the balance sheet.

To wrap up my commentary, our third quarter results reflected strong top-line growth, the unfavorable impacts from significant inflation and broad-based supply chain challenges. We continue to address the inflationary cost increases with our revenue management program. And as Dave has shared, we have other discrete actions in place to address the supply chain challenges. At the same time, we are investing in the longer-term potential of our business.

I'll 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: to accelerate our core business growth, to simplify our supply chain, to reduce our costs and grow our margins, and to expand our core with focused M&A and strategic licensing.

Looking ahead to our fiscal fourth quarter, we expect that our pricing actions will contribute to sales gains in both Retail and the Foodservice segments. While sales volumes measured in pounds will comp to strong growth of 9% in our Retail segment and 29% in our Foodservice segment. We anticipate the net unfavorable impacts of higher commodity and packaging cost, increased freight and warehousing cost, supply chain challenges, and higher labor costs will remain a headwind to our financial results in the coming quarter.

The pricing actions we had implemented, along with our ongoing cost-savings initiatives underway, will help to partially offset these higher costs. During the quarter, we expect to make material progress on two of our key strategic initiatives. First, our investment at our Horse Cave dressing and sauces facility remains on track for completion in the first half of fiscal year 2023. This project will not only allow us to keep pace with the tremendous growth potential of our sauces and dressings platform, but also allow us to do so in a more automated and cost-effective manner.

Second, I am pleased to share that the implementation phase of our ERP initiative, Project Ascent, remains on track to begin in the first quarter of fiscal 2023. We are already preparing for the cutover by increasing our finished goods inventory. In the month of June, we may see some incremental sales as customers adjust their order patterns to build inventory in advance of our go live dates.

Taking a step back, while our third quarter financial performance fell short of our expectations, we have the action plans underway to help us overcome the many challenges of the current operating environment. Longer term, I'm confident that our business remains very well positioned for the future, with category leading retail brands, a rapidly growing consumer centric retail licensing program, and a Foodservice business that supplies many of the leading and fastest growing national chain restaurant accounts in the country. When combined with our

investments in capacity and infrastructure, we have a strong and unique platform to deliver profitable growth for years to come.

In closing, I'd like to express my sincere thanks for the ongoing efforts of the entire Lancaster Colony team. We've navigated through unprecedented cost inflation, demand fluctuations, and supply chain disruptions. Our focus remains on the health, safety, and welfare of our employees, continuing to play our role in the country's vital food supply chain, and preparing our business for the future.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Todd Brooks with The Benchmark Company. You may proceed with your question.

Todd M. Brooks
Analyst, The Benchmark Co. LLC

Q

Hey, good morning, everybody.

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

A

Good morning, Todd.

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

A

Good morning, Todd.

Todd M. Brooks
Analyst, The Benchmark Co. LLC

Q

A couple of quick questions, if I can. If you just look at the magnitude of the inflation that you're facing kind of intra-quarter pressures that developed over the course of the March quarter, and then marry that up with where you are currently contracted or protected to some extent. Can we talk about what – how this inflation outlook is going to carry forward as you look at what repricings could be as we head towards fiscal 2023, knowing it's a fluid situation?

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

A

So maybe the easiest way to think about this, Todd, is to lay out a bridge in terms of the margin pressure that we've seen in the most recent quarter and then use that as a sort of a place, a platform to go forward. Tom, do you want to walk through that?

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

A

Yeah. Sure. So, Todd, certainly as we set up the quarter, we had anticipated being more in a PNOC neutral position, but with the rapid run-up in freight costs, wheat costs, and other commodities, we weren't – we didn't

quite get there this quarter. So I'll take you through the some of the pieces on the overall margin and then let Dave talk about more of the outlook.

So when you just take into account the amount of commodity inflation and pricing that we had, you add about $40 million to the revenue line and $40 million to the cost line. That gives you about 300 basis points of margin dilution that we experienced. And then the piece where we're effectively behind in terms of some of the conversion and freight inflation, and some of the other factors, that was about 350 basis points of dilution. Then you look at the [ph] co-man (00:21:23) impacts, that was about 100 basis points and then some of the supply chain challenges make up the balance of the dilution we experienced in the quarter. I'll stop there and let Dave talk a little bit about kind of the revenue management program and the margin recovery aspects of it.

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

A

Yeah. So, and maybe just to build on what Tom was saying. If you look at it more broadly, what we're really seeing on our aggregate inflation is two-thirds of the pressure we're seeing is coming from edible oils and in wheat, of that total number that we're talking about here. And Todd, as we look sort of into the future and we look at the current spot rate and we look at the forward rates on those items, for lots of reasons that are available out there in the news, we expect that pressure to continue. So, as we think about the tools we're going to use on a go forward basis to manage it, the first and most important of those tools will remain revenue growth management and pricing.

And as we outlined in our script, we have pricing actions that are taking place every single quarter in our Foodservice business. And then in our Retail business, we pass along another price increase on our dough business and we're prepping another price increase that will go into effect on our dressing business. And I think what you can expect to see really as long as we remain in a sustained inflationary environment, we're going to continue to press price increases multiple times a year as long as we feel like the consumers are going to be able to withstand them. That needs to be our number one weapon to combat this inflation.

Now, beyond the use of revenue growth management and pricing, there're other tools that we're going to continue to use as well. Number one is going to be the value engineering work that we're going to be doing inside of our factories. And as wage rates are going up, transportation rates are going up, et cetera, et cetera, what we're seeing is a lot of projects for automation that were in our pipeline, all of a sudden are becoming far more compelling. Those are being worked into the queue to be activated. But given the nature of this inflation that we're seeing, particularly around things like grains and oils, we're finding that it's increasingly important to look beyond just the way we're manufacturing our product [ph] to look (00:23:45) and going to look at the intrinsic nature of our products ourself. We're looking at, hey, are there ways that we can lightweight plastic in our bottles? Are there ways that we can down gauge the corrugate in our boxes.

And we're also actually even looking at formulas to say, are there things that we can do to the formulas that won't be considered a diminution of value to the consumer, let's say, and the way mom experiences the product. But I'll give you a case in point. We have products today that are made with canola, and canola is actually experiencing more pressure than soy. We're in a process of reviewing those formulas, testing them with consumers and preparing those for a switch.

So if you'll look at it, our view is we're going to continue for the foreseeable future to see pressure on the raw commodities. It's going to be – it remained to be seen what happens with labor and things like that. But our number one tool is pricing. And then beyond that, it's going to be value engineering in our factories through

automation and then product re-engineering to figure out where can we strip out non-value-added costs in the products.

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

Yeah. And as it relates, Todd...

Todd M. Brooks
Analyst, The Benchmark Co. LLC
Q

Yeah, that's very – go ahead Tom, sorry.

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

Yeah, as it relates to Q4, we do see a significant step-up in pricing versus Q3 with the Retail action and the follow-through in the Foodservice pricing, contractual pricing.

Todd M. Brooks
Analyst, The Benchmark Co. LLC
Q

Maybe it's worth reviewing what pricing was, maybe Q2 into Q3 and then what you're looking at Q4, so that we can dimensionalize that for each segment?

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

Yeah. So yeah, I'll give it to you by segment. So in Q2, in Retail, we had about 6% pricing, similar level in Q3. And then Q4, we step up close to 8%. And then for Foodservice in Q2, 13.5%, in Q3 a little over 20% and then Q4, we're into the mid-20s.

Todd M. Brooks
Analyst, The Benchmark Co. LLC
Q

Okay. Great. One more quick one and then I'll go back in queue. Dave, you talked about taking these price increases as long as the end customer can bear it. Are you seeing any signs of elasticity in the Retail business as the price increases [ph] have gone – (00:26:03) come into effect? Is private label growing market share against branded products? Just any take on the consumers' willingness to bear the additional price still in this environment?

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

First on the elasticities in consumers, so far the pricing actions are being accepted in a way that's exceeded our base elasticity assumptions. Now, how it plays out varies a little bit more from product to product. We have some categories that are a little bit more susceptible to private label than others. What I would share with you, though, is even in those categories, private label is going up on a percentage basis, at least as much as we are, if not more. What we're watching, though, isn't the percentage increase, it's the price gap versus private label. But so far, I'm pleased to share that on our Retail business, consumers are hanging in there with us. And if you look at our Foodservice business, which we can get into a little bit more, maybe in a subsequent question, we haven't seen a big drop off because of consumer pressure yet either.

Todd M. Brooks
Analyst, The Benchmark Co. LLC

Q

Okay, great. I'll go back in the queue. Thanks, guys.

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

A

Thanks, Todd.

Operator: Thank you. Our next question comes from Ryan Bell with Consumer Edge Research. You may proceed with your question.

Ryan Blaze Bell
Analyst, Consumer Edge Research LLC

Q

Morning. Ass you look at the volume trends within the Foodservice business throughout the quarter, [indiscernible] (00:27:27) about maybe the cadence of that, if there were any impacts from surges in COVID cases and then how that's sort of started out the fourth quarter?

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

A

Yeah. First of all, good morning, Ryan. If you look at the very beginning of the quarter, let's say December into January, pre-Omicron, we actually saw Foodservice was expanding on a transaction basis and it seemed quite healthy. Omicron seemed to spike, let's say, in the middle of the quarter. It took off in the latter part of January and was really an event through the back half of January into February. As we got into March, you could sort of see the impact of Omicron kind of run its course and the business kind of carried forward.

Now, as we think about the impact on Foodservice, here's what my observation is. I don't think Omicron necessarily changed our consumer behavior. It impacted in Foodservice our operators' ability to staff and run their restaurants. So if you look at their volume and transaction trends during that period, you might see some of those same sort of trends because of their ability to staff the restaurants, not because people were necessarily pulling back on how they were eating.

Now, as we've looked at the most recent few weeks, even after the quarter is closed into April, what we're seeing generally across our consumer segments or our Foodservice segment, is that sales are continuing to grow, really driven by pricing. But if you look at the transaction trends, the transaction trends are probably down, let's say low single-digits, in some cases mid-single digits.

Now, there are some winners that are doing a little better, some losers that are doing a little bit worse. But we're also comping a point in time where, if you remember last year right now this very same week, QSR transactions were up about 50%, right? So we're comping against a really elevated base in the same period. But as you're looking at the model on Foodservice and you're estimating transactions, right now sales up, let's call it, mid-single digits somewhere around there, particularly in the QSR space, transactions probably off low-single digits with some winners and losers in there. But that gives you a rough idea of where we are.

Ryan Blaze Bell
Analyst, Consumer Edge Research LLC

Q

Thanks. And as you're thinking about your performance, I think in the past you've skewed towards areas that have recovered faster and were growing faster. Would you talk about or think about having share gains within Foodservice?

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

A

Well, what I would tell you is that our – historically, when you look at our business, when we've gone through more troubling financial times, the QSR segment has over – outperformed mid-scale and casual dining. Just because I believe consumers viewed QSR as a better value. They were inclined to trade down from some of the other more expensive restaurants. We believe that thesis will hold up if we move towards a recession.

If you look at where we are right now, I think the trends are – there isn't a lot of movement back and forth between the segments that we can discern right now. It looks like, particularly when you look against the prior couple years of COVID, all three segments seemed to be sort of motoring forward.

Ryan Blaze Bell
Analyst, Consumer Edge Research LLC

Q

Thanks. And just turning to the Retail business and the license partnerships, where do you think you see the most opportunity going forward? I understand that Chick-fil-A is really big and seems like it has a lot of legs still left behind it or do you see it being in package mix assortment, flavor expansion or more of an even split between the two?

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

A

I think it's going to be a combination of all that. We can tell you that we're readying a range of items that we're going to be launching in the fall and then shortly thereafter and these are going to be timed with the startup of our Horse Cave facility.

But what you can expect to see, for example, on Chick-fil-A are importantly a larger size that's going to be coming out into the marketplace. And then that barbecue sauce item that we shared with you a couple of calls ago, both of those are going to be coming out within the next, let's call it, nine months or so.

And they're going to play an important role for a couple of reasons. One, I think they're going to meet unique needs. They're going to provide greater holding power on the shelf. But it's also going to provide an opportunity for us to go visit – revisit planograms with all of our Retail customers and ideally create more facings on the shelf, which will just improve the overall base performance.

If we look at other products moving around the horn on Buffalo Wild Wings, this is a product that's just taken off and performed beautifully. Here, again, we're readying new items on this and we're excited about where we can go here.

And then finally, even on Olive Garden, we're in the process of readying new items, each of which provide incremental shelf space which provide access to two new occasions. So, what you can expect to see over the next year is really a continued expansion on all of those licenses. And one thing that I'm not prepared to share with you is we're also looking at other categories with some of our partners to figure out where there could be green space that's complementary.

Ryan Blaze Bell
Analyst, Consumer Edge Research LLC

Q

Thanks. And I think the last one from me, when you're thinking about the margins and particularly gross margins on a sequential basis, obviously, there are impacts in 3Q. Just thinking about it in sort of the year-over-year context and sequentially, is there any perspective that you'd be able to provide for the fourth quarter and then, just broadly speaking for fiscal 2023?

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

A

Yeah. What I would share with you is that, in the fourth quarter, obviously, it's difficult to forecast in this environment. Some of the things we've hit on, you've got on the headwind side, you've got the commodity inflation, you've got the labor inflation, the supply chain challenges. But from tailwinds, we do have more pricing and we do have all of those actions, as Dave highlighted, to improve performance. From what we see today, we do see both the sequential improvement versus Q3 and certainly a reduction in the level of decline that we experienced versus Q3 and Q4.

Ryan Blaze Bell
Analyst, Consumer Edge Research LLC

Q

Thank you. That's it for me.

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

A

Okay. Great. Thanks, Ryan.

Operator: Thank you. As 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 for joining our call today. And we look forward to meeting with you again in August when we review our fourth quarter results and provide you an outlook on our fiscal year 2023. Thank you.

Operator: Thank you. This concludes today's conference call. Thank you for participating. You may now disconnect.